

REGISTRATION NO. 333-31790

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

AMENDMENT NO. 3

TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

COMMUNITY HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

8062
(Primary Standard Industrial
Classification Code Number)

13-3893191
(I.R.S. Employer Identification
Number)

155 FRANKLIN ROAD, SUITE 400
BRENTWOOD, TENNESSEE 37027
(615) 373-9600
(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

RACHEL A. SEIFERT
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(615) 373-9600
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as
practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act,
check the following box. / /

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act registration statement number of the earlier effective
registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(d)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434,
please check the following box. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE (2)
COMMON STOCK, \$.01 PAR VALUE	\$366,562,500	\$96,773(3)

(1) A portion of the proposed maximum aggregate offering price represents shares that are to be offered outside the United States but that may be resold from time to time in the United States. Such shares are not being registered for the purpose of sales outside the United States.

(2) Estimated pursuant to Rule 457(o) solely for the purpose of calculating the registration fee.

(3) Includes a filing fee of \$91,080 previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

EXPLANATORY NOTE

This registration statement contains two separate prospectuses. The first prospectus relates to a public offering in the United States and Canada of an aggregate of 15,937,500 shares of common stock. The second prospectus relates to a concurrent offering outside the United States and Canada of an aggregate of 2,812,500 shares of common stock. The prospectuses for each of the U.S. offering and the international offering will be identical with the exception of an alternate front cover page, an alternate back cover page, and an alternate "Underwriting" section for the international offering. These alternate pages appear in this registration statement immediately following the complete prospectus for the U.S. offering.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED MAY 17, 2000

PROSPECTUS

18,750,000 SHARES

[LOGO]

COMMON STOCK

This is Community Health Systems, Inc.'s initial public offering. We are selling all of the shares. The U.S. underwriters are offering 15,937,500 shares in the U.S. and Canada and the international managers are offering 2,812,500 shares outside the U.S. and Canada.

We expect the public offering price to be between \$15.00 and \$17.00 per share. Currently, no public market exists for the shares. After pricing of the offering, the shares will trade on the New York Stock Exchange under the symbol "CYH."

INVESTING IN THE COMMON STOCK INVOLVES RISKS WHICH ARE DESCRIBED IN THE "RISK FACTORS" SECTION BEGINNING ON PAGE 7 OF THIS PROSPECTUS.

	PER SHARE	TOTAL
	-----	-----
Public offering price.....	\$	\$
Underwriting discount.....	\$	\$
Proceeds before expenses to Community Health Systems.....	\$	\$

The U.S. underwriters may also purchase up to an additional 2,390,625 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments. The international managers may similarly purchase up to an additional 421,875 shares from us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about _____, 2000.

MERRILL LYNCH & CO.

BANC OF AMERICA SECURITIES LLC

CHASE H&Q

CREDIT SUISSE FIRST BOSTON

GOLDMAN, SACHS & CO.

MORGAN STANLEY DEAN WITTER

The date of this prospectus is _____, 2000.

[INSIDE FRONT COVER]

[DESCRIPTION OF ARTWORK: MAP OF THE UNITED STATES INDICATING LOCATIONS OF OUR FACILITIES]

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PROSPECTUS SUMMARY

YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY, ESPECIALLY THE RISKS OF INVESTING IN OUR COMMON STOCK DISCUSSED UNDER RISK FACTORS.

COMMUNITY HEALTH SYSTEMS

OVERVIEW OF OUR COMPANY

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues. As of April 30, 2000, we owned, leased or operated 49 hospitals, geographically diversified across 20 states, with an aggregate of 4,348 licensed beds. In over 80% of our markets, we are the sole provider of general hospital healthcare services. In most of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 1999, we generated \$1.08 billion in revenues.

Affiliates of Forstmann Little & Co. formed us in 1996 to acquire our predecessor company. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company in January 1997. Under this new ownership and leadership, we have:

- strengthened the senior management team in all key business areas;
- standardized and centralized our operations across key business areas;
- implemented a disciplined acquisition program;
- expanded and improved the services and facilities at our hospitals;
- recruited additional physicians to our hospitals;
- instituted a company-wide regulatory compliance program; and
- divested certain non-core assets.

As a result of these initiatives, we achieved revenue growth of 26.4% in 1999 and 15.1% in 1998.

We target growing, non-urban healthcare markets because of their favorable demographic and economic trends and competitive conditions. Because non-urban service areas have smaller populations, there are generally fewer hospitals and other healthcare service providers in these communities. We believe that smaller populations result in less direct competition for hospital-based services. Also, we believe that non-urban communities generally view the local hospital as an integral part of the community. There is generally a lower level of managed care presence in these markets.

OUR BUSINESS STRATEGY

The key elements of our business strategy are to:

- **INCREASE REVENUE AT OUR FACILITIES.** We seek to increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Our initiatives to increase revenue include:
 - u recruiting additional primary care physicians and specialists;
 - u expanding the breadth of services offered at our hospitals through targeted capital expenditures; and
 - u providing the capital to invest in our facilities, particularly in our emergency rooms.
- **GROW THROUGH SELECTIVE ACQUISITIONS.** Each year we intend to acquire, on a selective basis, two to four hospitals. We pursue acquisition candidates that:
 - u have a general service area population between 20,000 and 80,000 with a stable or growing population base;
 - u are the sole or primary provider of general hospital services in the community;

- u are located more than 25 miles from a competing hospital;
- u are not located in an area that is dependent upon a single employer or industry; and
- u have financial performance that we believe will benefit from our management's operating skills.

We estimate that there are currently approximately 400 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned.

- REDUCE COSTS. To improve efficiencies and increase margins, we implement cost containment programs which include:

- u standardizing and centralizing our operations;
- u optimizing resource allocation by utilizing our company-devised case and resource management program;
- u capitalizing on purchasing efficiencies;
- u installing a standardized management information system; and
- u managing staffing levels.

- IMPROVE QUALITY. We implement new programs to improve the quality of care provided. These include training programs, sharing of best practices, assistance in complying with regulatory requirements, standardized accreditation documentation, and patient, physician, and staff satisfaction surveys.

RECENT DEVELOPMENTS

Since December 31, 1999, we acquired three additional hospitals for an aggregate consideration of approximately \$37 million, increasing the number of hospitals we own, lease, or operate to 49 as of April 30, 2000. In addition, on May 15, 2000, we signed an agreement to acquire an additional hospital for \$66 million, plus working capital. The sellers of each of these hospitals are tax-exempt entities. Each of these hospitals is the sole provider of general hospital services in its community.

INDUSTRY OVERVIEW

Hospital services is the largest single category of healthcare expenditures at 33.7% of total healthcare spending in 1999, or \$401.3 billion. The U.S. Health Care Financing Administration projects the hospital services category to grow by 5.7% per year through 2008.

According to the American Hospital Association, there are approximately 5,015 hospitals in the U.S. that are owned by not-for-profit entities, for-profit investors, or state or local governments. Of these hospitals, 44%, or approximately 2,200, are located in non-urban areas.

At the closing of the offering, we will have only one class of common stock. To achieve this, we will effect a recapitalization immediately before the closing of the offering. The recapitalization includes the exchange of Class B common stock for Class A common stock, the exchange of options to acquire Class C common stock for options to acquire Class A common stock, the redesignation of Class A common stock as common stock, and a 118.7148-for-1 split of our common stock. Unless otherwise indicated, all information in this prospectus gives effect to the recapitalization. See "Description of Capital Stock--Overview."

We were incorporated in Delaware in 1996. Our principal subsidiary was incorporated in Delaware in 1985. Our principal executive offices are located at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027. Our telephone number at that address is (615) 373-9600. Our World Wide Web site address is www.chs.net. The information in the website is not intended to be incorporated into this prospectus by reference and should not be considered a part of this prospectus.

THE OFFERING

Common stock offered by Community Health

Systems:

U.S. offering.....	15,937,500 shares
International offering.....	2,812,500 shares

Total.....	18,750,000 shares

Common stock to be outstanding after the

offering..... 74,342,859 shares (a)

Use of proceeds.....

Our net proceeds from the offering are estimated to be approximately \$279.0 million. We will use these proceeds to repay senior debt, including approximately \$60.3 million of senior debt held by affiliates of the underwriters.

Risk factors.....

See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

NYSE symbol..... CYH

- - - - -

(a) Excludes 5,238,406 shares of common stock we have reserved for issuance under our stock option plans. Of these reserved shares, 738,406 shares are issuable upon exercise of outstanding stock options at an average exercise price of \$7.23.

If our value changes significantly prior to the pricing of the offering, we will change the split ratio and exchange rates indicated in this preliminary prospectus to reflect the fair values of the shares. If that occurs, the number of our outstanding shares and the number of shares held by each of our stockholders reflected in this preliminary prospectus will change. We will reflect the actual split ratio, exchange rates, and share numbers in the final prospectus.

Unless we specifically state otherwise, the information in this prospectus does not take into account the sale of up to 2,812,500 shares of common stock which the underwriters have the option to purchase from us to cover over-allotments. All information in this prospectus assumes the issuance and sale of common stock in the offering at an assumed initial public offering price of \$16.00 per share, the mid-point of the range of the initial public offering prices set forth on the cover page of this prospectus.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the summary consolidated financial and other data below in conjunction with our consolidated financial statements and the accompanying notes. We derived the historical financial data for the three years ended December 31, 1999 from our audited consolidated financial statements. We derived the historical financial data for the three months ended March 31, 1999 and March 31, 2000, and as of March 31, 2000, from our unaudited interim condensed consolidated financial statements. You should also read Selected Consolidated Financial and Other Data and the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained later in this prospectus. The pro forma consolidated statement of operations data reflects the offering and the use of the estimated net proceeds from the offering to repay a portion of outstanding debt as if these events had occurred on January 1, 1999 for the year ended December 31, 1999 and on January 1, 2000 for the three months ended March 31, 2000. The pro forma consolidated balance sheet data give effect to these events as if they had occurred on March 31, 2000.

	YEAR ENDED DECEMBER 31,				THREE MONTHS ENDED MARCH 31,		
	1997	1998	1999	PRO FORMA 1999 (a)	1999	2000	PRO FORMA 2000 (a)
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA							
Net operating revenues....	\$ 742,350	\$ 854,580	\$ 1,079,953	\$ 1,079,953	\$ 263,004	\$ 308,651	\$ 308,651
Operating expenses (b)....	620,112	688,190	875,768	875,768	210,734	248,570	248,570
Depreciation and amortization.....	43,753	49,861	56,943	56,943	13,033	16,380	16,380
Amortization of goodwill.....	25,404	26,639	24,708	24,708	5,677	6,168	6,168
Impairment of long-lived assets.....	--	164,833	--	--	--	--	--
Compliance settlement and Year 2000 remediation costs (c).....	--	20,209	17,279	17,279	300	--	--
Income (loss) from operations.....	53,081	(95,152)	105,255	105,255	33,260	37,533	37,533
Interest expense, net.....	89,753	101,191	116,491	94,963	26,762	32,683	26,943
Income (loss) before cumulative effect of a change in accounting principle and income taxes.....	(36,672)	(196,343)	(11,236)	10,292	6,498	4,850	10,590
Provision for (benefit from) income taxes.....	(4,501)	(13,405)	5,553	13,949	4,580	3,929	6,168
Income (loss) before cumulative effect of a change in accounting principle.....	(32,171)	(182,938)	(16,789)	(3,657)	1,918	921	4,422
Cumulative effect of a change in accounting principle, net of taxes.....	--	(352)	--	--	--	--	--
Net income (loss).....	\$ (32,171)	\$ (183,290)	\$ (16,789)	\$ (3,657)	\$ 1,918	\$ 921	\$ 4,422
Basic income (loss) per common share:							
Income (loss) before cumulative effect of a change in accounting principle.....	\$ (0.60)	\$ (3.39)	\$ (0.31)	\$ (0.05)	\$ 0.04	\$ 0.02	\$ 0.06
Cumulative effect of a change in accounting principle.....	--	(0.01)	--	--	--	--	--
Net income (loss).....	\$ (0.60)	\$ (3.40)	\$ (0.31)	\$ (0.05)	\$ 0.04	\$ 0.02	\$ 0.06
Diluted income (loss) per common share:							
Income (loss) before cumulative effect of a change in accounting principle.....	\$ (0.60)	\$ (3.39)	\$ (0.31)	\$ (0.05)	\$ 0.03	\$ 0.02	\$ 0.06
Cumulative effect of a change in accounting principle.....	--	(0.01)	--	--	--	--	--
Net income (loss).....	\$ (0.60)	\$ (3.40)	\$ (0.31)	\$ (0.05)	\$ 0.03	\$ 0.02	\$ 0.06
Weighted-average number of shares outstanding (d):							
Basic.....	53,568,891	53,892,388	54,258,465	73,008,481	54,128,085	54,369,202	73,119,202
Diluted.....	53,568,891	53,892,388	54,258,465	73,008,481	55,607,631	55,857,980	74,607,980

THREE MONTHS ENDED
MARCH 31,

	2000	PRO FORMA 2000(a)
--	------	----------------------

(DOLLARS IN THOUSANDS)

CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD)

Cash and cash equivalents.....	\$ 10,885	\$ 10,885
Total assets.....	1,935,730	1,935,730
Long-term obligations.....	1,488,018	1,209,018
Stockholders' equity.....	230,694	509,694

SELECTED OPERATING DATA

The following table sets forth operating statistics for our hospitals for each of the periods presented. Statistics for 1997 include a full year of operations for 36 hospitals, including one hospital acquired on January 1, 1997, and a partial period for one hospital acquired during the year. Statistics for 1998 include a full year of operations for 37 hospitals and partial periods for four hospitals acquired during the year. Statistics for 1999 include a full year of operations for 41 hospitals and partial periods for four hospitals acquired, and one hospital constructed and opened, during the year. Statistics for the three months ended March 31, 1999 include operations for 41 hospitals and partial periods for two hospitals acquired. Statistics for the three months ended March 31, 2000 include operations for 46 hospitals and partial periods for one hospital acquired.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
	(DOLLARS IN THOUSANDS)				
Number of hospitals (e).....	37	41	46	43	47
Licensed beds (e)(f).....	3,288	3,644	4,115	3,903	4,223
Beds in service (e)(g).....	2,543	2,776	3,123	2,952	3,281
Admissions (h).....	88,103	100,114	120,414	31,516	34,704
Adjusted admissions (i).....	153,618	177,075	217,006	53,637	62,309
Patient days (j).....	399,012	416,845	478,658	131,698	138,473
Average length of stay (days) (k).....	4.5	4.2	4.0	4.2	4.0
Occupancy rate (beds in service) (l).....	43.1%	43.3%	44.1%	51.4%	47.4%
Net inpatient revenue as a % of total net revenue.....	57.3%	55.7%	52.7%	55.5%	52.4%
Net outpatient revenue as a % of total net revenue.....	41.5%	42.6%	45.5%	43.0%	45.8%
Adjusted EBITDA (m).....	\$122,238	\$ 166,390	\$ 204,185	\$ 52,270	\$ 60,081
Adjusted EBITDA as a % of net revenue.....	16.5%	19.5%	18.9%	19.9%	19.5%
Net cash flows provided by (used in) operating activities.....	\$ 21,544	\$ 15,719	\$ (11,746)	\$ (18,860)	\$ (4,945)
Net cash flows used in investing activities.....	\$(76,651)	\$(236,553)	\$(155,541)	\$ (66,143)	\$(38,423)
Net cash flows provided by financing activities.....	\$ 36,182	\$ 219,890	\$ 164,850	\$ 89,595	\$ 49,971

	YEAR ENDED DECEMBER 31,		PERCENTAGE INCREASE (DECREASE)	THREE MONTHS ENDED MARCH 31,		PERCENTAGE INCREASE (DECREASE)
	1998	1999		1999	2000	
	(DOLLARS IN THOUSANDS)			(DOLLARS IN THOUSANDS)		
SAME HOSPITALS DATA (n)						
Admissions (h).....	100,114	105,053	4.9%	30,798	31,307	1.7%
Adjusted admissions (i).....	177,075	190,661	7.7%	52,488	55,878	6.5%
Patient days (j).....	416,845	419,942	0.7%	128,520	124,251	(3.3%)
Average length of stay (days) (k).....	4.2	4.0	(4.8%)	4.2	4.0	(4.8%)
Occupancy rate (beds in service) (l).....	43.3%	43.5%		52.2%	48.6%	
Net revenue.....	\$850,980	\$915,811	7.6%	\$ 255,006	\$ 275,303	8.0%
Adjusted EBITDA (m).....	\$160,611	\$180,794	12.6%	\$ 49,975	\$ 57,013	14.1%
Adjusted EBITDA, as a % of net revenue.....	18.9%	19.7%		19.6%	20.7%	

- (a) Reflects the offering, the application of the estimated net proceeds from the offering to repay debt of \$279.0 million based upon outstanding debt balances as of December 31, 1999 and March 31, 2000, and the resultant reduction of interest expense of \$21.5 million for the year ended December 31, 1999 as if these events had occurred on January 1, 1999 and \$5.7 million for the three months ended March 31, 2000 as if these events had occurred on January 1, 2000. Also reflects an increase in provision for income taxes of \$8.4 million for the year ended December 31, 1999 and \$2.2 million for the three months ended March 31, 2000 resulting from the decrease in interest expense. See "Use of Proceeds" and note (e) to the "Selected Consolidated Financial and Other Data."
- (b) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude the items that are excluded for purposes of determining adjusted EBITDA as discussed in footnote (m) below.
- (c) Includes Year 2000 remediation costs of \$0.2 million in 1998 and \$3.3 million in 1999.
- (d) See notes 10 and 14 to the consolidated financial statements.
- (e) At end of period.
- (f) Licensed beds are the number of beds for which the appropriate state agency licenses a facility regardless of whether the beds are actually available for patient use.
- (g) Beds in service are the number of beds that are readily available for patient use.
- (h) Admissions represent the number of patients admitted for inpatient treatment.
- (i) Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues.
- (j) Patient days represent the total number of days of care provided to inpatients.
- (k) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.
- (l) We calculated percentages by dividing the average daily number of inpatients by the weighted average of beds in service.
- (m) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.
- (n) Includes acquired hospitals to the extent we operated them during comparable periods in both years.

RISK FACTORS

IF FEDERAL OR STATE HEALTHCARE PROGRAMS OR MANAGED CARE COMPANIES REDUCE THE PAYMENTS WE RECEIVE AS REIMBURSEMENT FOR SERVICES WE PROVIDE, OUR REVENUES MAY DECLINE.

A large portion of our revenues come from the Medicare and Medicaid programs. In recent years, federal and state governments made significant changes in the Medicare and Medicaid programs. These changes have decreased the amount of money we receive for our services relating to these programs.

In recent years, Congress and some state legislatures have introduced an increasing number of other proposals to make major changes in the healthcare system. Future federal and state legislation may further reduce the payments we receive for our services.

In addition, insurance and managed care companies and other third parties from whom we receive payment for our services increasingly are attempting to control healthcare costs by requiring that hospitals discount their services in exchange for exclusive or preferred participation in their benefit plans. We believe that this trend may continue and may reduce the payments we receive for our services.

IF WE FAIL TO COMPLY WITH EXTENSIVE LAWS AND GOVERNMENT REGULATIONS, WE COULD SUFFER PENALTIES OR BE REQUIRED TO MAKE SIGNIFICANT CHANGES TO OUR OPERATIONS.

The healthcare industry is required to comply with many laws and regulations at the federal, state, and local government levels. These laws and regulations require that hospitals meet various requirements, including those relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, compliance with building codes, and environmental protection. If we fail to comply with applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in the Medicare, Medicaid, and other federal and state healthcare programs.

In addition, there are heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to the healthcare industry, including the hospital segment. The ongoing investigations relate to various referral, cost reporting, and billing practices, laboratory and home healthcare services, and physician ownership and joint ventures involving hospitals.

In the future, different interpretations or enforcement of these laws and regulations could subject our current practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs, and operating expenses.

IF WE FAIL TO COMPLY WITH THE MATERIAL TERMS OF OUR CORPORATE COMPLIANCE AGREEMENT, WE COULD BE EXCLUDED FROM GOVERNMENT HEALTHCARE PROGRAMS.

In December 1997, we approached the Office of Inspector General of the U.S. Department of Health and Human Services and made a voluntary disclosure regarding reimbursements we received from the U.S. government programs from 1993 to 1997. The disclosure related to possible inaccurate practices and policies for the assignment of billing codes for inpatient services. We have executed a settlement agreement with the U.S. Department of Justice, the Inspector General, and all applicable state medical programs. Under the terms of this agreement, we will pay approximately \$31 million to the appropriate governmental agencies in exchange for a release of civil claims relating to these reimbursements.

As part of this settlement, we entered into a corporate compliance agreement with the Inspector General. Complying with our corporate compliance agreement will require additional efforts and costs.

Our failure to comply with the terms of the compliance agreement could subject us to civil and criminal penalties, including significant fines. In addition, failure to comply with the material terms of the compliance agreement could lead to suspension or disbarment from further participation in the federal and state healthcare programs, including Medicare and Medicaid. Any suspension or disbarment would restrict our ability to treat patients and receive reimbursement from these programs. See "Business of Community Health Systems--Compliance Program."

IF COMPETITION DECREASES OUR ABILITY TO ACQUIRE ADDITIONAL HOSPITALS ON FAVORABLE TERMS, WE MAY BE UNABLE TO EXECUTE OUR ACQUISITION STRATEGY.

An important part of our business strategy is to acquire two to four hospitals each year in non-urban markets. However, not-for-profit hospital systems and other for-profit hospital companies generally attempt to acquire the same type of hospitals as we do. Some of these other purchasers have greater financial resources than we do. Our principal competitors for acquisitions include Health Management Associates, Inc. and Province Healthcare Company. In addition, some hospitals are sold through an auction process, which may result in higher purchase prices than we believe are reasonable. Therefore, we may not be able to acquire additional hospitals on terms favorable to us.

IF WE FAIL TO IMPROVE THE OPERATIONS OF ACQUIRED HOSPITALS, WE MAY BE UNABLE TO ACHIEVE OUR GROWTH STRATEGY.

Some of the hospitals we have acquired had operating losses prior to the time we acquired them. We may be unable to operate profitably any hospital or other facility we acquire, effectively integrate the operations of any acquisitions, or otherwise achieve the intended benefit of our growth strategy.

IF WE ACQUIRE HOSPITALS WITH UNKNOWN OR CONTINGENT LIABILITIES, WE COULD BECOME LIABLE FOR MATERIAL OBLIGATIONS.

Hospitals that we acquire may have unknown or contingent liabilities, including liabilities for failure to comply with healthcare laws and regulations. Although we seek indemnification from prospective sellers covering these matters, we may nevertheless have material liabilities for past activities of acquired hospitals.

STATE EFFORTS TO REGULATE THE SALE OF HOSPITALS OPERATED BY NOT-FOR-PROFIT ENTITIES COULD PREVENT US FROM ACQUIRING ADDITIONAL HOSPITALS AND EXECUTING OUR BUSINESS STRATEGY.

Many states, including some where we have hospitals and others where we may in the future acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative efforts focus primarily on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the non-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in completing acquisitions. However, future actions on the state level could seriously delay or even prevent our ability to acquire hospitals.

STATE EFFORTS TO REGULATE THE CONSTRUCTION, ACQUISITION OR EXPANSION OF HOSPITALS COULD PREVENT US FROM ACQUIRING ADDITIONAL HOSPITALS, RENOVATING OUR FACILITIES OR EXPANDING THE BREADTH OF SERVICES WE OFFER.

Some states require prior approval for the construction or acquisition of healthcare facilities and for the expansion of healthcare facilities and services. In giving approval, these states consider the need for additional or expanded healthcare facilities or services. In some states in which we operate, we are

required to obtain certificates of need, known as CONs, for capital expenditures exceeding a prescribed amount, changes in bed capacity or services, and certain other matters. Other states may adopt similar legislation. We may not be able to obtain the required CONs or other prior approvals for additional or expanded facilities in the future. In addition, at the time we acquire a hospital, we may agree to replace or expand the facility we are acquiring. If we are not able to obtain required prior approvals, we would not be able to acquire additional hospitals and expand healthcare services.

OUR SIGNIFICANT INDEBTEDNESS COULD LIMIT OUR OPERATIONAL AND CAPITAL FLEXIBILITY.

As of March 31, 2000, on a pro forma basis after giving effect to the use of the net proceeds of the offering, we had total long term debt of \$1,184.7 million or approximately 70.0% of our total capitalization.

Our acquisition program requires substantial capital resources. In addition, the operations of our existing hospitals require ongoing capital expenditures. We may need to incur additional indebtedness to fund these acquisitions and expenditures. However, we may be unable to obtain sufficient financing on terms satisfactory to us.

The degree to which we are leveraged could have other important consequences to holders of the common stock, including the following:

- we must dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness; this reduces the funds available for our operations;
- a portion of our borrowings are at variable rates of interest, which makes us vulnerable to increases in interest rates; and
- our indebtedness contains numerous financial and other restrictive covenants, including restrictions on paying dividends, incurring additional indebtedness, and selling assets.

IF WE ARE UNABLE TO EFFECTIVELY COMPETE FOR PATIENTS, LOCAL RESIDENTS COULD USE OTHER HOSPITALS.

The hospital industry is highly competitive. In addition to the competition we face for acquisitions and physicians, we must also compete with other hospitals and healthcare providers for patients. The competition among hospitals and other healthcare providers for patients has intensified in recent years. Our hospitals are located in non-urban service areas. Most of our hospitals face no direct competition because there are no other hospitals in their primary service areas. However, these hospitals do face competition from hospitals outside of their primary service area, including hospitals in urban areas that provide more complex services. These facilities generally are located in excess of 25 miles from our facilities. Patients in our primary service areas may travel to these other hospitals for a variety of reasons. These reasons include physician referrals or the need for services we do not offer. Patients who seek services from these other hospitals may subsequently shift their preferences to those hospitals for the services we do provide.

Some of our hospitals operate in primary service areas where they compete with one other hospital. One of our hospitals competes with more than one other hospital in its primary service area. Some of these competing hospitals use equipment and services more specialized than those available at our hospitals. In addition, some of the hospitals that compete with us are owned by tax-supported governmental agencies or not-for-profit entities supported by endowments and charitable contributions. These hospitals can make capital expenditures without paying sales, property and income taxes. We also face competition from other specialized care providers, including outpatient surgery, orthopedic, oncology, and diagnostic centers.

We expect that these competitive trends will continue. Our inability to compete effectively with other hospitals and other healthcare providers could cause local residents to use other hospitals. See "Business of Community Health Systems--Competition."

IF WE BECOME SUBJECT TO SIGNIFICANT LEGAL ACTIONS, WE COULD BE SUBJECT TO SUBSTANTIAL UNINSURED LIABILITIES.

In recent years, physicians, hospitals, and other healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability, or related legal theories. Many of these actions involve large claims and significant defense costs. To protect us from the cost of these claims, we generally maintain professional malpractice liability insurance and general liability insurance coverage in amounts and with deductibles that we believe to be appropriate for our operations. However, our insurance coverage may not cover all claims against us or continue to be available at a reasonable cost for us to maintain adequate levels of insurance.

IF FUTURE CASH FLOWS ARE INSUFFICIENT TO RECOVER THE CARRYING VALUE OF OUR GOODWILL, A MATERIAL NON-CASH CHARGE TO EARNINGS COULD RESULT.

The Forstmann Little partnerships acquired our predecessor company in 1996 principally for cash. We recorded a significant portion of the purchase price as goodwill. We have also recorded as goodwill a portion of the purchase price for our subsequent hospital acquisitions. At March 31, 2000, we had \$876.7 million of goodwill recorded on our books. We expect to recover the carrying value of this goodwill through our future cash flows. On an ongoing basis, we evaluate, based on projected undiscounted cash flows, whether we will be able to recover all or a portion of the carrying value of goodwill. If future cash flows are insufficient to recover the carrying value of our goodwill, we must write off a portion of the unamortized balance of goodwill. In 1998, in connection with our periodic review process, we determined that projected undiscounted cash flows from seven of our hospitals were below the carrying value of the long-lived assets associated with these hospitals. In accordance with generally accepted accounting principles, we adjusted the carrying value of these assets to their estimated fair value through an impairment charge of \$164.8 million. Of this charge, goodwill accounted for \$134.3 million. This impairment charge arose from various circumstances that were unique to each of the hospitals and adversely affected their prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

BECAUSE THE INITIAL PUBLIC OFFERING PRICE OF OUR COMMON STOCK EXCEEDS OUR NET TANGIBLE BOOK DEFICIT PER SHARE, INVESTORS WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION.

As a result of this offering, purchasers of the common stock in the offering will experience dilution in the amount of \$21.56 per share. On a pro forma basis, our net tangible book deficit at March 31, 2000 would have been \$414 million, or \$5.56 per share of common stock. Present stockholders will experience an immediate and substantial decrease in net tangible book deficit in the amount of \$6.90 per share of common stock.

IF OUR STOCK PRICE FLUCTUATES AFTER THE INITIAL OFFERING, YOU COULD LOSE A SIGNIFICANT PART OF YOUR INVESTMENT.

Prior to the offering, there has been no public market for our common stock. We will list our common stock on the NYSE. We do not know if an active trading market will develop for our common stock or how the common stock will trade in the future. Negotiations between the underwriters and us will determine the initial public offering price. You may not be able to resell your shares at or above the initial public offering price due to fluctuations in the market price of our common stock due to changes in our operating performance or prospects.

In addition, the stock market in general has experienced extreme volatility that often has been unrelated to the operating performance or prospects of particular companies.

BECAUSE FORSTMANN LITTLE AND OUR MANAGEMENT CONTROL US, THEY WILL BE ABLE TO DETERMINE THE OUTCOME OF ALL MATTERS SUBMITTED TO OUR STOCKHOLDERS FOR APPROVAL, REGARDLESS OF THE PREFERENCES OF THE MINORITY STOCKHOLDERS.

Following the offering, the Forstmann Little partnerships and our management will together own approximately three-fourths of our outstanding common stock. Accordingly, they will be able to:

- elect our entire board of directors;
- control our management and policies; and
- determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

The Forstmann Little partnerships and our management will also be able to prevent or cause a change in control of us and will be able to amend our certificate of incorporation and by-laws at any time. Their interests may conflict with the interests of the other holders of common stock.

IF EXISTING STOCKHOLDERS SELL THEIR COMMON STOCK, YOU COULD LOSE A SIGNIFICANT PART OF YOUR INVESTMENT.

Sales of a substantial number of shares of common stock into the public market after the offering, or the perception that these sales could occur, could have a material adverse effect on our stock price. As of April 30, 2000 and giving effect to the recapitalization and the offering, there were 74,342,859 shares of common stock outstanding. We have granted to the Forstmann Little partnerships six demand rights to cause us to file, at our expense, a registration statement under the Securities Act covering resales of their shares. These shares, along with shares held by others who can participate in the registrations, will represent 74.78% of our outstanding common stock after the offering. The Forstmann Little partnerships have no present intent to exercise their demand registration rights, although they retain the right to do so. These shares may also be sold under Rule 144 of the Securities Act, depending on their holding period and subject to significant restrictions in the case of shares held by persons deemed to be our affiliates.

IF PROVISIONS IN OUR CORPORATE DOCUMENTS AND DELAWARE LAW DELAY OR PREVENT A CHANGE IN CONTROL OF OUR COMPANY, WE MAY BE UNABLE TO CONSUMMATE A TRANSACTION THAT OUR STOCKHOLDERS CONSIDER FAVORABLE.

Our certificate of incorporation and by-laws may discourage, delay, or prevent a merger or acquisition involving us that our stockholders may consider favorable by:

- authorizing the issuance of preferred stock, the terms of which may be determined at the sole discretion of the board of directors;
- providing for a classified board of directors, with staggered three-year terms; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at meetings.

Delaware law may also discourage, delay or prevent someone from acquiring or merging with us. For a description you should read "Description of Capital Stock."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

THIS PROSPECTUS INCLUDES FORWARD-LOOKING STATEMENTS WHICH COULD DIFFER FROM ACTUAL FUTURE RESULTS.

Some of the matters discussed in this prospectus include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "thinks," and similar expressions are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. These factors include the following:

- general economic and business conditions, both nationally and in the regions in which we operate;
- demographic changes;
- existing governmental regulations and changes in, or the failure to comply with, governmental regulations or our corporate compliance agreement;
- legislative proposals for healthcare reform;
- our ability, where appropriate, to enter into managed care provider arrangements and the terms of these arrangements;
- changes in Medicare and Medicaid payment levels;
- liability and other claims asserted against us;
- competition;
- our ability to attract and retain qualified personnel, including physicians;
- trends toward treatment of patients in lower acuity healthcare settings;
- changes in medical or other technology;
- changes in generally accepted accounting principles;
- the availability and terms of capital to fund additional acquisitions or replacement facilities; and
- our ability to successfully acquire and integrate additional hospitals.

Although we believe that these statements are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Given these uncertainties, prospective investors are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this prospectus. We assume no obligation to update or revise them or provide reasons why actual results may differ.

USE OF PROCEEDS

We estimate our net proceeds from the offering, after deducting estimated expenses and underwriting discounts and commissions of \$21.0 million, to be approximately \$279.0 million. We will use these proceeds to repay senior debt outstanding under our credit agreement with The Chase Manhattan Bank and other lenders in the following priority: debt under our revolving credit facility; debt under our acquisition loan facility; and our term loans. Based upon our senior debt outstanding as of March 31, 2000, we will use these proceeds to repay approximately \$145.0 million of senior debt under our revolving credit facility and \$134.0 million of senior debt under our acquisition loan facility. These amounts include approximately \$60.3 million of senior debt held by affiliates of the underwriters. The revolving credit facility and acquisition loan facility expire December 31, 2002. As of March 31, 2000, the effective interest rate for the revolving credit facility and acquisition loan facility was 8.19%. The term loans expire on December 31, 2005. As of March 31, 2000, the effective interest rate for the term loans was 9.49%.

Any net proceeds received by us from the exercise by the underwriters of their over-allotment option will also be used to repay our senior debt in accordance with the priority specified above.

We expect to borrow under the revolving credit facility as needed to fund our working capital needs and for general corporate purposes. We also expect to borrow under the acquisition loan facility as needed to fund the acquisition of additional hospitals. See "Business of Community Health Systems--Our Business Strategy--Grow Through Selective Acquisitions."

See "Management--Relationships and Transactions between Community Health Systems and its Officers, Directors and 5% Beneficial Owners and their Family Members" and "Description of Indebtedness."

DIVIDEND POLICY

We have not paid any cash dividends in the past, and we do not intend to pay any cash dividends for the foreseeable future. We intend to retain earnings, if any, for the future operation and expansion of our business. Any determination to pay dividends in the future will be dependent upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law, and other factors deemed relevant by our board of directors. Our existing indebtedness limits our ability to pay dividends and make distributions to stockholders.

CAPITALIZATION

The following table sets forth our debt and capitalization as of March 31, 2000, on an actual basis and on a pro forma basis. The pro forma data reflect the offering and the use of the estimated net proceeds from the offering to repay a portion of the outstanding debt.

In addition, you should read the following table in conjunction with Selected Consolidated Financial and Other Data, our consolidated financial statements and the accompanying notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Description of Indebtedness, which are contained later in this prospectus.

	AS OF MARCH 31, 2000	
	ACTUAL	PRO FORMA
	(DOLLARS IN THOUSANDS)	
LONG-TERM DEBT:		
Credit facilities(a):		
Revolving credit loans.....	\$ 145,000	\$ --
Acquisition loans.....	159,951	25,951
Term loans.....	619,307	619,307
Subordinated debentures.....	500,000	500,000
Taxable bonds.....	28,800	28,800
Tax-exempt bonds.....	8,000	8,000
Capital lease obligations and other debt.....	23,547	23,547
	-----	-----
Total debt.....	1,484,605	1,205,605
Less current maturities.....	(20,955)	(20,955)
	-----	-----
Total long-term debt(b).....	1,463,650	1,184,650
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized, none issued.....	--	--
Common stock, \$.01 par value per share, 300,000,000 shares authorized; 56,793,516 shares issued and 55,592,859 outstanding actual; 75,543,516 shares issued and 74,342,859 outstanding pro forma.....	568	755
Additional paid-in capital.....	483,235	762,048
Accumulated deficit.....	(244,431)	(244,431)
Treasury stock, at cost, 1,200,657 shares.....	(6,587)	(6,587)
Notes receivable for common stock.....	(1,932)	(1,932)
Unearned stock compensation.....	(159)	(159)
	-----	-----
Total stockholders' equity.....	230,694	509,694
	-----	-----
Total capitalization.....	\$1,694,344	\$1,694,344
	=====	=====

(a) These borrowings included amounts borrowed in connection with the acquisitions we completed on April 1, 2000.

(b) We also had letters of credit issued, primarily in support of our taxable and tax-exempt bonds, of approximately \$43 million, reducing to \$40 million by December 31, 2000.

DILUTION

At March 31, 2000, we had a net tangible book deficit of \$693 million or \$12.46 per share. Net tangible book deficit is the difference between our total tangible assets and our total liabilities. We determined the net tangible book deficit per share by dividing our tangible net book deficit by the total number of shares of common stock outstanding. After giving effect to the sale of the 18,750,000 shares of common stock offered by us in the offering at \$16.00 per share, the mid-point of the range of the initial public offering prices set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us, our pro forma net tangible book deficit would have been approximately \$414 million, or \$5.56 per share of common stock. This represents an immediate increase in net tangible book value of \$6.90 per share to existing stockholders and an immediate dilution of \$21.56 per share to new investors purchasing shares of common stock in the offering. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share.....		\$ 16.00
Net tangible book deficit per share before the offering...	\$(12.46)	
Increase in net tangible book value per share attributable to new investors.....	6.90	

Pro forma net tangible book deficit per share after the offering.....		(5.56)

Dilution per share to new investors.....		\$ 21.56
		=====

The following table sets forth, on a pro forma basis as of March 31, 2000, the number of shares of common stock owned by existing stockholders and to be owned by new investors, the total consideration paid and the average price per share paid by our existing stockholders and to be paid by new investors in the offering at \$16.00, the mid-point of the range of the initial public offering prices set forth on the cover page of this prospectus, and before deduction of estimated underwriting discounts and commissions:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	55,592,859	74.78%	\$496,478,000	62.33%	\$ 8.93
New investors.....	18,750,000	25.22%	300,000,000	37.67%	16.00
	-----	-----	-----	-----	
Total.....	74,342,859	100.00%	\$796,478,000	100.00%	
	=====	=====	=====	=====	

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

You should read the selected consolidated historical financial and other data below in conjunction with our consolidated financial statements and the accompanying notes. You should also read Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained later in this prospectus. We derived the consolidated historical financial data as of December 31, 1998 and 1999 and for the three years ended December 31, 1999 from our consolidated financial statements. We derived the historical data for the three months ended March 31, 1999 and March 31, 2000, and as of March 31, 2000, from our unaudited interim condensed consolidated financial statements. We adjusted the pro forma data for the offering and the use of the estimated net proceeds from the offering to repay a portion of outstanding debt as if these events had occurred on January 1, 1999 for the year ended December 31, 1999 and on January 1, 2000 for the three months ended March 31, 2000 with respect to the consolidated statement of operations data and on December 31, 1999 and March 31, 2000 with respect to consolidated balance sheet data. We derived the selected consolidated financial and other data as of December 31, 1996 and 1997 for the period from July 1 through December 31, 1996 from our unaudited consolidated financial statements, which are not contained in this prospectus. We derived the selected consolidated financial and other data at December 31, 1995 and June 30, 1996 and for the year ended December 31, 1995 and the period from

January 1, 1996 through June 30, 1996 from the unaudited consolidated financial statements of our predecessor company, which are not contained in this prospectus.

	PREDECESSOR (a)						
	YEAR ENDED DECEMBER 31, 1995(b)	PERIOD FROM JANUARY 1 THROUGH JUNE 30, 1996(c)	PERIOD FROM JULY 1 THROUGH DECEMBER 31, 1996(d)	YEAR ENDED DECEMBER 31,			PRO FORMA 1999(e)
				1997	1998	1999	
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA							
Net operating revenues....	\$547,926	\$ 294,166	\$ 327,922	\$ 742,350	\$ 854,580	\$ 1,079,953	\$ 1,079,953
Operating expenses (f)....	453,173	291,712(g)	270,319	620,112	688,190	875,768	875,768
Depreciation and amortization.....	35,944	17,558	18,858	43,753	49,861	56,943	56,943
Amortization of goodwill.....	223	164	11,627	25,404	26,639	24,708	24,708
Impairment of long-lived assets and relocation costs.....	25,400	15,655	--	--	164,833	--	--
Compliance settlement and Year 2000 remediation costs (h).....	--	--	--	--	20,209	17,279	17,279
Loss from hospital sales.....	--	3,146	--	--	--	--	--
Income (loss) from operations.....	33,186	(34,069)	27,118	53,081	(95,152)	105,255	105,255
Interest expense, net.....	18,790	8,930	38,964	89,753	101,191	116,491	94,963
Income (loss) before cumulative effect of a change in accounting principle and income taxes.....	14,396	(42,999)	(11,846)	(36,672)	(196,343)	(11,236)	10,292
Provision for (benefit from) income taxes.....	4,443	(15,747)	1,256	(4,501)	(13,405)	5,553	13,949
Income (loss) before cumulative effect of a change in accounting principle.....	9,953	(27,252)	(13,102)	(32,171)	(182,938)	(16,789)	(3,657)
Cumulative effect of a change in accounting principle, net of taxes.....	--	--	--	--	(352)	--	--
Net income (loss).....	<u>\$ 9,953</u>	<u>\$ (27,252)</u>	<u>\$ (13,102)</u>	<u>\$ (32,171)</u>	<u>\$ (183,290)</u>	<u>\$ (16,789)</u>	<u>\$ (3,657)</u>
Basic and diluted income (loss) per common share:							
Income (loss) before cumulative effect of a change in accounting principle.....			\$ (0.24)	\$ (0.60)	\$ (3.39)	\$ (0.31)	\$ (0.05)
Cumulative effect of a change in accounting principle.....			--	--	(0.01)	--	--
Net income (loss).....			<u>\$ (0.24)</u>	<u>\$ (0.60)</u>	<u>\$ (3.40)</u>	<u>\$ (0.31)</u>	<u>\$ (0.05)</u>
Weighted-average number of shares outstanding, basic and diluted (i)...			<u>53,317,547</u>	<u>53,568,891</u>	<u>53,892,388</u>	<u>54,258,465</u>	<u>73,008,481</u>
CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD OR YEAR)							
Cash and cash equivalents.....	\$ 14,282	\$ 10,410	\$ 26,588	\$ 7,663	\$ 6,719	\$ 4,282	\$ 4,282
Total assets.....	547,910	506,323	1,630,630	1,643,521	1,747,016	1,895,084	1,895,084
Long-term obligations.....	258,779	246,216	1,009,698	1,053,450	1,273,502	1,430,099	1,171,754
Stockholders' equity.....	212,852	165,879	465,673	433,625	246,826	229,708	508,708

(CONTINUED ON FOLLOWING PAGE; FOOTNOTES BEGIN ON PAGE 18)

PREDECESSOR (a)

YEAR ENDED DECEMBER 31, 1995(b)	PERIOD FROM JANUARY 1 THROUGH JUNE 30, 1996(c)		PERIOD FROM JULY 1 THROUGH DECEMBER 31, 1996(d)		YEAR ENDED DECEMBER 31,	
	1997	1998	1999			
(DOLLARS IN THOUSANDS)						
SELECTED OPERATING DATA						
Number of hospitals (j)	36	29	35	37	41	46
Licensed beds (j)(k)	3,298	2,641	3,222	3,288	3,644	4,115
Beds in service (j)(l)	2,519	2,005	2,311	2,543	2,776	3,123
Admissions (m)	76,347	34,876	40,246	88,103	100,114	120,414
Adjusted admissions (n)	118,042	56,136	68,059	153,618	177,075	217,006
Patient days (o)	404,453	168,995	183,809	399,012	416,845	478,658
Average length of stay (days) (p)	5.3	4.8	4.6	4.5	4.2	4.0
Occupancy rate (beds in service) (q)	44.0%	46.3%	43.2%	43.1%	43.3%	44.1%
Net inpatient revenue as a % of total net revenue	63.0%	61.1%	58.3%	57.3%	55.7%	52.7%
Net outpatient revenue as a % of total net revenue	35.4%	37.5%	40.4%	41.5%	42.6%	45.5%
Adjusted EBITDA (r)	\$ 94,753	\$ 2,454(g)	\$ 57,603	\$ 122,238	\$ 166,390	\$ 204,185
Adjusted EBITDA as a % of net revenue	17.3%	0.8%	17.6%	16.5%	19.5%	18.9%
Net cash flows provided by (used in) operating activities	\$ 47,899	\$ 30,081	\$ 2,953	\$ 21,544	\$ 15,719	\$ (11,746)
Net cash flows used in investing activities	\$(71,414)	\$(25,067)	\$(1,259,268)	\$(76,651)	\$(236,553)	\$(155,541)
Net cash flows provided by (used in) financing activities	\$ 5,659	\$ (8,886)	\$ 1,282,903	\$ 36,182	\$ 219,890	\$ 164,850

Three Months Ended March
31,

	1999	2000	PRO FORMA 2000(e)
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA			
Net operating revenues	\$ 263,004	\$ 308,651	\$ 308,651
Operating expenses(f)	210,734	248,570	248,570
Depreciation and amortization	13,033	16,380	16,380
Amortization of goodwill	5,677	6,168	6,168
Year 2000 remediation costs	300	--	--
Income from operations	33,260	37,533	37,533
Interest expense, net	26,762	32,683	26,943
Income before income taxes	6,498	4,850	10,590
Provision for income taxes	4,580	3,929	6,168
Net income	\$ 1,918	\$ 921	\$ 4,422
Net income per common share:			
Basic	\$ 0.04	\$ 0.02	\$ 0.06
Diluted	\$ 0.03	\$ 0.02	\$ 0.06
Weighted average number of shares outstanding:			
Basic	54,128,085	54,369,202	73,119,202
Diluted	55,607,631	55,857,980	74,607,980

CONSOLIDATED BALANCE SHEET DATA (AS OF END OF PERIOD)

Cash and cash equivalents	\$ 10,885	\$ 10,885
Total assets	1,935,730	1,935,730
Long-term obligations	1,488,018	1,209,018
Stockholders' equity	230,694	509,694

(CONTINUED ON FOLLOWING PAGE; FOOTNOTES BEGIN ON FOLLOWING PAGE)

THREE MONTHS ENDED
MARCH 31,

1999 2000

(DOLLARS IN
THOUSANDS)

SELECTED OPERATING DATA

Number of hospitals (j).....	43	47
Licensed beds (j)(k).....	3,903	4,223
Beds in service (j)(l).....	2,952	3,281
Admissions (m).....	31,516	34,704
Adjusted admissions (m).....	53,637	62,309
Patient days (o).....	131,698	138,473
Average length of stay (days) (p).....	4.2	4.0
Occupancy rate (beds in service) (q).....	51.4%	47.4%
Net inpatient revenue as a % of total net revenue.....	55.5%	52.4%
Net outpatient revenue as a % of total net revenue.....	43.0%	45.8%
Adjusted EBITDA (r).....	\$ 52,270	\$ 60,081
Adjusted EBITDA as a % of net revenue.....	19.9%	19.5%
Net cash flows used in operating activities.....	\$(18,860)	\$ (4,945)
Net cash flows used in investing activities.....	\$(66,143)	\$(38,423)
Net cash flows provided by financing activities.....	\$ 89,595	\$ 49,971

(a) Effective in July 1996, we acquired all of the outstanding common stock of our principal subsidiary, CHS/ Community Health Systems, Inc. The predecessor company had a substantially different capital structure compared to ours. Because of the limited usefulness of the earnings per share information for the predecessor company, these amounts have been excluded.

(b) Includes nine hospitals divested or held for divestiture in 1996.

(c) Includes two acquisitions.

(d) Includes six acquisitions.

(e) Reflects the offering, the application of the estimated net proceeds from the offering to repay debt of \$279.0 million based upon outstanding debt balances as of December 31, 1999 and March 31, 2000, and the resultant reduction of interest expense of \$21.5 million as if these events had occurred on January 1, 1999 for the year ended December 31, 1999 and \$5.7 million as if these events had occurred on January 1, 2000 for the three months ended March 31, 2000. Also reflects an increase in provision for income taxes of \$8.4 million for the year ended December 31, 1999 and \$2.2 million for the three months ended March 31, 2000, resulting from the decrease in interest expense. See "Use of Proceeds." These adjustments are detailed as follows:

(1) To adjust interest expense to reflect the following:

- For the year ended December 31, 1999, interest expense on the revolving credit loans totaling \$8.2 million has been excluded, giving effect to the repayment of \$109.8 million in outstanding borrowings with the proceeds from the offering using an assumed weighted average interest rate of 7.43%. For the three months ended March 31, 2000, interest expense on the revolving credit loans totaling \$3.0 million has been excluded, giving effect to the repayment of \$145.0 million in outstanding borrowings with the proceeds from the offering using an assumed weighted average interest rate of 8.27%.
- For the year ended December 31, 1999, interest expense on the acquisition loans totaling \$10.3 million has been excluded, giving effect to the repayment of \$138.5 million in outstanding borrowings with proceeds from the offering using an assumed weighted average interest rate of 7.43%. For the three months ended March 31, 2000, interest expense on the acquisition loans totaling \$2.7 million has been excluded, giving effect to the repayment of \$134.0 million in outstanding borrowings with proceeds from the offering using an assumed weighted average interest rate of 8.19%.
- For the year ended December 31, 1999, interest expense on the term loans totaling \$3.0 million has been excluded, giving effect to the repayment of \$30.7 million in outstanding borrowings with the proceeds from the offering using an assumed weighted average interest rate of 10.03%.

(2) The adjustment to the pro forma provision for income taxes, computed using a 39% statutory income tax rate, was \$8.4 million for the year ended December 31, 1999 and \$2.2 million for the three months ended March 31, 2000 for the tax effect of the above-noted pro forma adjustments.

- (f) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude the items that are excluded for purposes of determining adjusted EBITDA as discussed in footnote (r) below.
- (g) Includes \$47.5 million of expense resulting from the cancellation of stock options associated with the acquisition of our principal subsidiary as discussed in footnote (a).
- (h) Includes Year 2000 remediation costs of \$0.2 million in 1998 and \$3.3 million in 1999.
- (i) See notes 10 and 14 to the consolidated financial statements.
- (j) At end of period.
- (k) Licensed beds are the number of beds for which the appropriate state agency licenses a facility regardless of whether the beds are actually available for patient use.
- (l) Beds in service are the number of beds that are readily available for patient use.
- (m) Admissions represent the number of patients admitted for inpatient treatment.
- (n) Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues.
- (o) Patient days represent the total number of days of care provided to inpatients.
- (p) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.
- (q) We calculated percentages by dividing the daily average number of inpatients by the weighted average of beds in service.
- (r) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets and relocation costs, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

You should read this discussion together with our consolidated financial statements and the accompanying notes and Selected Consolidated Financial and Other Data included elsewhere in this prospectus.

OVERVIEW

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues and EBITDA. As of December 31, 1999, we owned, leased or operated 46 hospitals, geographically diversified across 20 states, with an aggregate of 4,115 licensed beds. In over 80% of our markets, we are the sole provider of general hospital healthcare services. In most of our other markets, we are one of two providers of general hospital healthcare services. For the fiscal year ended December 31, 1999, we generated \$1.08 billion in net operating revenues and \$204.2 million in adjusted EBITDA. We achieved revenue growth of 26.4% in 1999 and 15.1% in 1998. We also achieved growth in adjusted EBITDA of 22.7% in 1999 and 36.1% in 1998.

ACQUISITIONS

On March 1, 2000, we acquired Southampton Memorial Hospital, a 105 bed hospital located in Franklin, Virginia. On April 1, 2000, we acquired Lakeview Community Hospital, a 74 bed hospital located in Eufaula, Alabama and Northeastern Regional Hospital, a 50 bed hospital located in Las Vegas, New Mexico. We acquired all three hospitals from tax-exempt entities for an aggregate consideration of approximately \$37 million, including working capital. Each of these hospitals is the sole provider of general hospital services in its community.

During 1999, we acquired, through three purchases and one capital lease transaction, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled \$77.8 million. This consideration consisted of \$59.7 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of \$18.1 million. We prepaid the entire lease obligation relating to the lease transaction. We included the prepayment as part of the cash consideration. We also opened one additional hospital, after completion of construction, at a cost of \$15.3 million. This owned hospital replaced a hospital that we managed.

During 1998, we acquired, through two purchase and two capital lease transactions, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled \$218.6 million. This consideration consisted of \$169.8 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of \$48.8 million. We prepaid the entire lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration. Also, effective December 1, 1998, we entered into an operating agreement relating to a 38 licensed bed hospital. We also purchased the working capital accounts of that hospital. The cash payment made for this hospital was \$2.8 million. Pursuant to this operating agreement, upon specified conditions being met, we will be obligated to construct a replacement hospital and to purchase for \$0.9 million the remaining assets of the hospital. Upon completion, all rights of ownership and operation will transfer to us.

During 1997, we exercised a purchase option under an operating lease and acquired two hospitals through capital lease transactions. The consideration for these three hospitals totaled \$46.1 million, including working capital. This consideration consisted of \$36.3 million in cash, which we borrowed under our acquisition loan facility, and assumed liabilities of \$9.8 million. We prepaid the entire lease obligation relating to each lease transaction. We included the prepayment as part of the cash consideration.

Goodwill from the acquisition of our predecessor company in 1996 was \$679.5 million and from subsequent hospital acquisitions was \$197.2 million as of March 31, 2000. Based on management's assessment of the goodwill's estimated useful life, we generally amortize our goodwill over 40 years. Goodwill represented 380% of our shareholders' equity as of March 31, 2000; the amount of goodwill amortized equaled 16.4% of our income from operations for the three-month period ended March 31, 2000. Significant adverse changes in facts regarding our industry, markets and operations could cause our management to shorten the estimated useful life used to amortize our goodwill. This could result in material increases in amortization of goodwill, or cause impairments to the carrying amount of such goodwill, resulting in a non-cash charge which would reduce operating income.

In the future, we intend to acquire, on a selective basis, two to four hospitals in our target markets annually. Because of the financial impact of acquisitions, it is difficult to make meaningful comparisons between our financial statements for the periods presented. Because EBITDA margins at hospitals we acquire are, at the time of acquisition, lower than those of our existing hospitals, acquisitions can negatively affect our EBITDA margins on a consolidated basis.

At March 31, 2000, we segregated the carrying amounts of two of our hospitals from our remaining assets. These carrying amounts are classified in our unaudited interim condensed consolidated balance sheet as of March 31, 2000, as long-term assets of facilities held for disposition. On May 1, 2000, we divested one of these facilities. We do not expect the impact of any gain or loss on our financial results to be material.

SOURCES OF REVENUE

Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. Approximately 55% of net operating revenues for the year ended December 31, 1997, 49% for the year ended December 31, 1998, and 48% for the year ended December 31, 1999, are related to services rendered to patients covered by the Medicare and Medicaid programs. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. We account for the differences between the estimated program reimbursement rates and the standard billing rates as contractual adjustments, which we deduct from gross revenues to arrive at net operating revenues. Final settlements under some of these programs are subject to adjustment based on administrative review and audit by third parties. We record adjustments to the estimated billings in the periods that such adjustments become known. We account for adjustments to previous program reimbursement estimates as contractual adjustments and report them in future periods as final settlements are determined. Adjustments related to final settlements or appeals that increased revenue were insignificant in each of the years ended December 31, 1997, 1998 and 1999. Net amounts due to third-party payors as of December 31, 1998 were \$19.9 million and as of December 31, 1999 were \$9.1 million. We included these amounts in accrued liabilities--other in the accompanying balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 1996.

We expect the percentage of revenues received from the Medicare program to increase due to the general aging of the population and the restoration of some payments under the Balanced Budget Refinement Act of 1999. The payment rates under the Medicare program for inpatients are based on a prospective payment system, based upon the diagnosis of a patient. While these rates are indexed for inflation annually, the increases have historically been less than actual inflation. Reductions in the rate of increase in Medicare reimbursement may have an adverse impact on our net operating revenue growth.

Based on our preliminary assessment of the recently released final regulations implementing Medicare's new prospective payment system for outpatient hospital care, we expect its impact to be

favorable but not material to our future operating results. The Health Care Financing Administration estimates that this new prospective payment system will result in an overall 9.7% increase in projected outpatient payments starting July 1, 2000, eliminating a projected 5.7% reduction in payments mandated by the Balance Budget Act of 1997.

In addition, Medicaid programs, insurance companies, and employers are actively negotiating the amounts paid to hospitals as opposed to their standard rates. The trend toward increased enrollment in managed care may adversely affect our net operating revenue growth.

RESULTS OF OPERATIONS

Our hospitals offer a variety of services involving a broad range of inpatient and outpatient medical and surgical services. These include orthopedics, cardiology, OB/GYN, occupational medicine, rehabilitation treatment, home health, and skilled nursing. The strongest demand for hospital services generally occurs during January through April and the weakest demand for these services occurs during the summer months. Accordingly, eliminating the effect of new acquisitions, our net operating revenues and earnings are generally highest during the first quarter and lowest during the third quarter.

The following tables summarize, for the periods indicated, selected operating data.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1997	1998	1999	1999	2000
	(EXPRESSED AS A PERCENTAGE OF NET OPERATING REVENUES)				
Net operating revenues.....	100.0	100.0	100.0	100.0	100.0
Operating expenses (a).....	(83.5)	(80.5)	(81.1)	(80.1)	(80.5)
Adjusted EBITDA (b).....	16.5	19.5	18.9	19.9	19.5
Depreciation and amortization.....	(5.9)	(5.8)	(5.3)	(5.0)	(5.3)
Amortization of goodwill.....	(3.4)	(3.1)	(2.3)	(2.2)	(2.0)
Impairment of long-lived assets.....	--	(19.3)	--	--	--
Compliance settlement and Year 2000 remediation costs (c).....	--	(2.4)	(1.6)	(0.1)	--
Income (loss) from operations.....	7.2	(11.1)	9.7	12.6	12.2
Interest, net.....	(12.1)	(11.8)	(10.8)	(10.2)	(10.6)
Income (loss) before cumulative effect of a change in accounting principle and income taxes.....	(4.9)	(22.9)	(1.1)	2.4	1.6
Provision for (benefit from) income taxes.....	(0.6)	(1.5)	.5	(1.7)	(1.3)
Income (loss) before cumulative effect of a change in accounting principle.....	(4.3)	(21.4)	(1.6)	0.7	0.3

	YEAR ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,
	1998	1999	2000
(EXPRESSED IN PERCENTAGES)			
PERCENTAGE CHANGE FROM PRIOR PERIOD:			
Net operating revenues.....	15.1	26.4	17.4
Admissions.....	13.6	20.3	10.1
Adjusted admissions (d).....	15.3	22.6	16.2
Average length of stay.....	(6.7)	(4.8)	(4.8)
Adjusted EBITDA.....	36.1	22.7	14.9
SAME HOSPITALS PERCENTAGE CHANGE FROM PRIOR PERIOD (e):			
Net operating revenues.....	2.5	7.6	8.0
Admissions.....	4.3	4.9	1.7
Adjusted admissions.....	6.4	7.7	6.5
Adjusted EBITDA.....	11.7	12.6	14.1

(a) Operating expenses include salaries and benefits, provision for bad debts, supplies, rent, and other operating expenses, and exclude the items that are excluded for purposes of determining adjusted EBITDA as discussed in footnote (b) below.

(b) We define adjusted EBITDA as EBITDA adjusted to exclude cumulative effect of a change in accounting principle, impairment of long-lived assets, compliance settlement and Year 2000 remediation costs, and loss from hospital sales. EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization, and amortization of goodwill. EBITDA and adjusted EBITDA should not be considered as measures of financial performance under generally accepted accounting principles. Items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and adjusted EBITDA are key measures used by management to evaluate our operations and provide useful information to investors. EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA and adjusted EBITDA are not measurements determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, EBITDA and adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(c) Includes Year 2000 remediation costs representing 0.0% in 1998 and 0.3% in 1999.

(d) Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues.

(e) Includes acquired hospitals to the extent we operated them during comparable periods in both years.

THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO THREE MONTHS ENDED MARCH 31, 1999

Net operating revenues increased by 17.4% to \$308.7 million for the three months ended March 31, 2000 from \$263.0 million for the three months ended March 31, 1999. Of the \$45.7 million increase in net operating revenues, the six hospitals we acquired in 1999 and 2000 contributed approximately \$25.4 million, and hospitals we owned throughout both periods contributed \$20.3 million, an increase of 8.0%. The increase from hospitals owned throughout both periods was attributable primarily to volume increases.

Inpatient admissions increased by 10.1%. Adjusted admissions increased by 16.2%. Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross

inpatient revenues. Average length of stay decreased by 4.8%. On a same-hospital basis, inpatient admissions increased by 1.7% and adjusted admissions increased by 6.5%. The increase in same hospital inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts and the addition of physicians through our focused recruitment program. We experienced this increase in inpatient admissions notwithstanding a higher incidence of flu in the three months ended March 31, 1999. On a same-hospital basis, net outpatient operating revenues increased 14.5%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, increased from 80.1% for the three months ended March 31, 1999 to 80.5% for the three months ended March 31, 2000, primarily due to higher operating expenses and lower initial adjusted EBITDA margins associated with acquired hospitals and one recently constructed hospital. Adjusted EBITDA margin decreased from 19.9% for the three months ended March 31, 1999 to 19.5% for the three months ended March 31, 2000. Operating expenses include salaries and benefits, provision for bad debts, supplies, rent and other operating expenses. Salaries and benefits, as a percentage of net operating revenues, increased to 39.0% from 38.6% for the comparable periods, due to acquisitions of hospitals in 1999 and 2000 having higher salaries and benefits as a percentage of net operating revenues. Provisions for bad debts, as a percentage of net operating revenues, increased to 9.1% from 8.6% for the comparable periods due to an increase in self-pay revenues and payor remittance slowdowns in part caused by Year 2000 compliant program conversions. Supplies, as a percentage of net operating revenues, decreased to 11.7% from 12.1%. Rent and other operating expenses, as a percentage of net operating revenues, decreased to 20.8% from 21.0% for the comparable periods.

On a same-hospital basis, operating expenses as a percentage of net operating revenues decreased from 80.4% for the three months ended March 31, 1999 to 79.3% for the three months ended March 31, 2000. We achieved these efficiency and productivity gains by reaching target staffing ratios and improving compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts.

Depreciation and amortization increased by \$3.4 million from \$13.0 million for the three months ended March 31, 1999 to \$16.4 million for the three months ended March 31, 2000. The six hospitals acquired in 1999 and 2000 accounted for \$1.0 million of the increase and facility renovations and purchases of equipment, including purchases of medical equipment and information systems upgrades related to Year 2000, accounted for the remaining \$2.4 million.

Amortization of goodwill increased by \$0.5 million from \$5.7 million for the three months ended March 31, 1999 to \$6.2 million for the three months ended March 31, 2000. The increase was related to the six hospitals acquired in 1999 and the first quarter of 2000.

Interest, net increased by \$5.9 million from \$26.8 million for the three months ended March 31, 1999 to \$32.7 million for the three months ended March 31, 2000. The six hospitals acquired in 1999 and the first quarter of 2000 accounted for approximately \$1.5 million of the increase and borrowings under our credit agreement to finance capital expenditures and an increase in average interest rates accounted for the remaining \$4.4 million.

Income before income taxes decreased from \$6.5 million for the three months ended March 31, 1999 to \$4.9 million for the three months ended March 31, 2000 primarily as a result of \$0.8 million in additional depreciation expense related to purchases of medical equipment and information systems upgrades related to Year 2000, \$2.9 million increase in interest expense related to an increase in our average interest rates between the three months ended March 31, 1999 and the comparable period of 2000, and \$1.0 million in initial operating losses at a recently constructed facility.

Provision for income taxes decreased from \$4.6 million for the three months ended March 31, 1999 to \$3.9 million for the three months ended March 31, 2000.

Net income was \$0.9 million for the three months ended March 31, 2000 compared to \$1.9 million for the three months ended March 31, 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Net operating revenues increased by 26.4% to \$1,080.0 million in 1999 from \$854.6 million in 1998. Of the \$225.4 million increase in net operating revenues, the nine hospitals we acquired, including one constructed, in 1998 and 1999, contributed \$160.6 million and nine hospitals we owned throughout both periods contributed \$64.8 million. The \$64.8 million, or 7.6%, increase in same hospitals net operating revenues was attributable primarily to inpatient and outpatient volume increases, partially offset by a decrease in reimbursement. In 1999, we experienced an estimated \$23 million of reductions from the Balanced Budget Act of 1997. We have experienced lower payments from a number of payors, resulting primarily from:

- reductions mandated by the Balanced Budget Act of 1997, particularly in the areas of reimbursement for Medicare outpatient, capital, bad debts, home health, and skilled nursing;
- reductions in various states' Medicaid programs; and
- reductions in length of stay for patients not reimbursed on an admission basis.

We expect the Balanced Budget Refinement Act of 1999 to lessen the impact of these reductions in future periods.

Inpatient admissions increased by 20.3%. Adjusted admissions increased by 22.6%. Average length of stay decreased by 4.8%. On a same hospitals basis, inpatient admissions increased by 4.9% and adjusted admissions increased by 7.7%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered, physician relationship development efforts, and the addition of physicians through our focused recruitment program. On a same hospitals basis, net outpatient operating revenues increased 14.8%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, increased from 80.5% in 1998 to 81.1% in 1999 due to higher operating expenses and lower initial adjusted EBITDA margins associated with acquired hospitals and one recently constructed hospital. Adjusted EBITDA margin decreased from 19.5% in 1998 to 18.9% in 1999. Salaries and benefits, as a percentage of net operating revenues, increased to 38.8% in 1999 from 38.4% in 1998, due to acquisitions of hospitals in 1998 and 1999 having higher salaries and benefits as a percentage of net operating revenues than our 1998 results. Provision for bad debts, as a percentage of net operating revenues, increased to 8.8% in 1999 from 8.1% in 1998 due to an increase in self-pay revenues and payor remittance slowdowns in part caused by Year 2000 conversions. Supplies, as a percentage of net operating revenues, decreased to 11.7% in 1999 from 11.8% in 1998. Rent and other operating expenses, as a percentage of net operating revenues, decreased to 21.7% in 1999 from 22.3% in 1998.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 81.1% in 1998 to 80.3% in 1999 and adjusted EBITDA margin increased from 18.9% in 1998 to 19.7% in 1999. These efficiency and productivity gains resulted from the achievement of target staffing ratios and improved compliance with national purchasing contracts. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts.

Depreciation and amortization increased by \$7 million from \$49.9 million in 1998 to \$56.9 million in 1999. The nine hospitals acquired in 1998 and 1999 accounted for \$7.1 million of the increase and

facility renovations and purchases of equipment accounted for the remaining \$3.3 million. These increases were offset by a \$3.4 million reduction in depreciation and amortization related to the 1998 impairment write-off of certain assets.

Amortization of goodwill decreased by \$1.9 million from \$26.6 million in 1998 to \$24.7 million in 1999. The 1998 impairment charge resulted in a \$3.6 million reduction in amortization of goodwill, offset by an increase of \$1.7 million primarily related to the nine hospitals acquired in 1998 and 1999.

Interest, net increased by \$15.3 million from \$101.2 million in 1998 to \$116.5 million in 1999. The nine hospitals acquired in 1998 and 1999 accounted for \$10.2 million of the increase, and borrowings under our credit agreement to finance capital expenditures accounted for the remaining \$5.1 million.

Loss before cumulative effect of a change in accounting principle and income taxes for 1999 was \$11.2 million compared to a loss of \$196.3 million in 1998. A majority of this variance was due to a \$164.8 million charge for impairment of long-lived assets recorded in 1998. In December 1998, in connection with our periodic review process, we determined that as a result of adverse changes in physician relationships, undiscounted cash flows from seven of our hospitals were below the carrying value of long-lived assets associated with those hospitals. Therefore, in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," we adjusted the carrying value of the related long-lived assets, primarily goodwill, to their estimated fair value. We based the estimated fair values of these hospitals on specific market appraisals.

The provision for income taxes in 1999 was \$5.6 million compared to a benefit of \$13.4 million in 1998. Due to the non-deductible nature of certain goodwill amortization and the goodwill portion of the 1998 impairment charge, the resulting effective tax rate is in excess of the statutory rate.

Including the impairment of long-lived assets, compliance settlement costs, Year 2000 remediation costs, and cumulative effect of a change in accounting principle charges, net loss for 1999 was \$16.8 million as compared to \$183.3 million net loss in 1998. In 1997, we initiated a voluntary review of inpatient medical records to determine whether documentation supported the inpatient codes billed to certain governmental payors for the years 1993 through 1997. We have executed a settlement agreement with the appropriate state and federal governmental agencies for a negotiated settlement amount of \$31 million. The settlement agreement requires payment of the entire settlement amount on May 22, 2000. We recorded as a charge to income, under the caption "Compliance settlement costs," \$20 million in 1998 and \$14 million in 1999.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net operating revenues increased by 15.1% to \$854.6 million in 1998 from \$742.4 million in 1997. Of the \$112.2 million increase, the six hospitals we acquired in 1997 and 1998 contributed approximately \$93.3 million, and the hospitals we owned throughout both periods contributed \$18.9 million. The \$18.9 million, or 2.5%, increase in same hospital net operating revenues was attributable primarily to inpatient and outpatient volume increases, partially offset by a decrease in reimbursement. In 1998, we experienced an estimated \$14 million of reductions from the Balanced Budget Act of 1997. We have experienced lower payments from a number of payors, resulting primarily from:

- reductions mandated by the Balanced Budget Act of 1997, particularly in the areas of reimbursement for Medicare outpatient, capital, bad debts, and home health;
- reductions in various states' Medicaid programs;
- reductions in length of stay for patients not reimbursed on an admission basis; and
- a reduction in Medicare case-mix index.

Inpatient admissions increased by 13.6%, adjusted admissions increased by 15.3%, and average length of stay decreased by 6.7%. On a same hospitals basis, inpatient admissions increased by 4.3% and adjusted admissions increased by 6.4%. The increase in same hospitals inpatient admissions and adjusted admissions was due primarily to an increase in services offered as a result of our capital expenditure program, physician relationship development efforts, and the addition of physicians through recruitment. On a same hospitals basis, net outpatient operating revenues increased 7.6%. Outpatient growth reflects the continued trend toward a preference for outpatient procedures, where appropriate, by patients, physicians, and payors.

Operating expenses, as a percentage of net operating revenues, decreased from 83.5% in 1997 to 80.5% in 1998. Adjusted EBITDA margin increased to 19.5% in 1998 from 16.5% in 1997. Salaries and benefits, as a percentage of net operating revenues, decreased to 38.4% in 1998 from 40.0% in 1997. Provision for bad debts, as a percentage of net operating revenues, increased to 8.1% in 1998 from 7.7% in 1997 due to an increase in self pay revenues. Supplies, as a percentage of net operating revenues, decreased to 11.8% in 1998 from 12.2% in 1997. Rent and other operating expenses, as a percentage of net operating revenues, decreased to 22.3% in 1998 from 23.7% in 1997.

On a same hospitals basis, operating expenses as a percentage of net operating revenues decreased from 82.4% in 1997 to 80.9% in 1998 and adjusted EBITDA margin increased from 17.6% in 1997 to 19.1% in 1998. These efficiency and productivity gains resulted in part from the achievement of target staffing ratios. Operating expenses improved as a percentage of net operating revenues in every major category except provision for bad debts.

Depreciation and amortization increased by \$6.1 million from \$43.8 million in 1997 to \$49.9 million in 1998. The six hospitals acquired in 1997 and 1998 accounted for \$4.4 million of the increase, and facility renovations and purchases of equipment accounted for the remaining \$1.7 million.

Amortization of goodwill increased by \$1.2 million from \$25.4 million in 1997 to \$26.6 million in 1998. The six hospitals acquired in 1997 and 1998 accounted for the majority of this increase.

Interest, net increased by \$11.4 million from \$89.8 million in 1997 to \$101.2 million in 1998. The six hospitals acquired in 1997 and 1998 accounted for \$8 million of the increase, and borrowings under our credit agreement to finance capital expenditures accounted for the remaining \$3.4 million.

Loss before cumulative effect of a change in accounting principle and income taxes for 1998 was \$196.3 million compared to a loss of \$36.7 million in 1997. A majority of this increase was due to a \$164.8 million charge for impairment of long-lived assets recorded in 1998. In December 1998, in connection with our periodic review process, we determined that projected undiscounted cash flows for seven of our hospitals were below the carrying value of the long-lived assets associated with these hospitals. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," we adjusted the carrying value of these assets to their estimated fair values and recorded an impairment charge of \$164.8 million. \$134.3 million of this charge was related to goodwill, \$27.1 million related to tangible property and \$3.4 million related to identifiable intangibles. Of the seven impaired hospitals, two are located in Georgia; two are located in Texas; one is located in Florida; one is located in Louisiana; and one is located in Kentucky. The events and circumstances leading to the impairment charge were unique to each of the hospitals.

One of our Kentucky hospitals lost its only anesthesiologist due to unexpected death and a leading surgeon due to illness. We have not been able to successfully recruit a replacement surgeon. One of our Georgia hospitals lost a key surgeon due to unexpected death and a leading specialist due to relocation to another market. We have not been able to successfully recruit replacement physicians. One of our Louisiana hospitals relies heavily on foreign physicians and, following the departure of four foreign physicians from its market over a short period of time, has had difficulties replacing these

physicians because of regulatory changes in recruiting foreign physicians. The skilled nursing and home health reimbursement for one of our Texas hospitals was disproportionately and adversely affected by the Balanced Budget Act of 1997. In addition, the market in which this hospital operates relies on foreign physicians that have been difficult to recruit because of regulatory changes. Our other Georgia hospital terminated an employed specialty surgeon who was responsible for over 5% of the hospital's revenue. We have not been able to replace the surgeon. In addition, this hospital's skilled nursing reimbursement was disproportionately and adversely affected by the Balanced Budget Act of 1997. Our other Texas hospital lost market share and was excluded from several key managed care contracts caused by the combination in 1998 of two larger competing hospitals. This is our only hospital which competes with more than one hospital in its primary service area. A Florida hospital we then owned terminated discussions in 1998 with an unrelated hospital, located in a contiguous county, to build a combined replacement facility. The short and long-term success of this hospital was in our view dependent upon the combination being effected.

Generally, we have not experienced difficulty in recruiting physicians and specialists for our hospitals. However, for the four hospitals referred to above we have experienced difficulty in recruiting physicians and specialists where the number of physicians on staff is low. These four hospitals averaged 13 physicians per hospital as of December 31, 1998. The average number of physicians on the medical staff of our other hospitals was 39 physicians at that time. We continually monitor the relationships of our hospitals with their physicians and any physician recruiting requirements. We have frequent discussions with board members, chief executive officers and chief financial officers of our hospitals. We are not aware of any significant adverse relationships with physicians or any recurring physician recruitment needs that, if not resolved in a timely manner, would have a material adverse effect on our results of operations and financial position, either currently or in future periods.

The provision for income taxes in 1998 was a benefit of \$13.4 million compared to a benefit of \$4.5 million in 1997. Due to the non-deductible nature of goodwill amortization and the goodwill portion of the 1998 impairment charge, the resulting effective tax rate is in excess of the statutory rate.

Including the impairment of long-lived assets, compliance settlement costs, Year 2000 remediation costs, and cumulative effect of a change in accounting principle charges, net loss for 1998 was \$183.3 million as compared to \$32.2 million net loss in 1997.

LIQUIDITY AND CAPITAL RESOURCES

THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO THREE MONTHS ENDED MARCH 31, 1999

Net cash used in operating activities decreased \$14 million from a use of \$18.9 million for the three months ended March 31, 1999 to a use of \$4.9 million for the three months ended March 31, 2000. The use of cash from investing activities decreased from \$66.1 million to \$38.4 million for the comparable periods. The cost of acquisitions for the three months ended March 31, 2000 included \$8.5 million for the acquisition of a hospital located in Franklin, Virginia and \$12.9 million for acquisitions located in Las Vegas, New Mexico and Eufaula, Alabama that closed on April 1, 2000. The cost of acquisitions during the comparable periods decreased \$23.0 million and the cost of construction and renovation projects decreased \$3.9 million primarily as a result of the completion of construction of a new facility which was opened in October 1999. Net cash provided by financing activities decreased from \$89.6 million to \$50.0 million for the comparable periods as a result of the lower cost of acquired hospitals and reduction in construction and renovations costs.

1999 COMPARED TO 1998

Net cash provided by operating activities decreased by \$27.4 million, from \$15.7 million during 1998 to a use of \$11.7 million during 1999 due primarily to an increase in accounts receivable at both same hospitals and newly-acquired hospitals. The use of cash in investing activities decreased from

\$236.6 million in 1998 to \$155.5 million in 1999. The \$81.1 million decrease was due primarily to a decrease in cash used to finance hospital acquisitions of \$112.9 million during 1999. This decrease was offset by a \$31.8 million increase in cash used primarily to finance capital expenditures during 1999, including approximately \$15.0 million of Year 2000 expenditures. The 1998 use of cash to acquire facilities, included four hospitals, two of which were larger facilities. Net cash provided by financing activities decreased from \$219.9 million in 1998 to \$164.9 million in 1999. Excluding the refinancing of our credit facility, borrowings in 1999 would have been \$186.3 million and repayments would have been \$20.9 million. This represents a \$56.2 million decrease compared to \$242.5 million borrowed in 1998 and repayments of long-term indebtedness of \$20.9 million in 1999 compared to repayments of \$18.8 million in 1998. The \$56.2 million decrease in borrowings related to a lesser amount spent on acquisition of facilities, partially offset by increased capital expenditures and an increase in the accounts receivable balance.

1998 COMPARED TO 1997

Net cash provided by operating activities decreased by \$5.8 million from \$21.5 million during 1997 to \$15.7 million during 1998, due primarily to an increase in accounts receivable at both same hospitals and newly-acquired hospitals. The use of cash in investing activities increased from \$76.7 million in 1997 to \$236.6 million in 1998. The \$159.9 million increase was attributable primarily to the four hospitals acquired in 1998, including two larger facilities, as compared to two hospitals acquired in 1997. Net cash provided by financing activities increased by \$183.7 million to \$219.9 million in 1998, as compared to \$36.2 million in 1997. The increase was due primarily to the purchase of four hospitals in 1998.

CAPITAL EXPENDITURES

Our capital expenditures for 1999 totaled \$64.8 million compared to \$51.3 million in 1998 and \$48.8 million in 1997. Our capital expenditures for 1999 excludes \$15.3 million of costs associated with the opening and construction of one additional hospital. The increase in capital expenditures in 1999 was due primarily to an increase in purchases of medical equipment and information systems upgrades related to Year 2000 compliance. The increase in capital expenditures during 1998 as compared to 1997 was attributable primarily to an increase in purchases of medical equipment and facility improvements.

As an obligation under hospital purchase agreements in effect as of April 30, 2000, we are required to construct four replacement hospitals through 2005 with an aggregate estimated construction cost of approximately \$100 million. This includes our obligation under a purchase agreement relating to a hospital we acquired on April 1, 2000. We expect total capital expenditures of approximately \$70 million in 2000, including \$55 million for renovation and equipment purchases and \$15 million for construction of replacement hospitals.

CAPITAL RESOURCES

Net working capital was \$100.8 million at March 31, 2000 compared to \$65.2 million at December 31, 1999. The \$35.6 million increase from December 31, 1999 to March 31, 2000 was attributable primarily to an increase in cash and accounts receivable due to a combination of growth in same hospitals revenues during 2000 and the addition of one hospital in 2000 and payments of debt and related interest during 2000.

During March 1999, we amended our credit agreement. The amended credit agreement provides for \$644 million in term debt with quarterly amortization and staggered maturities in 2000, 2001, 2002, 2003, 2004 and 2005. This agreement also provides for revolving facility debt for working capital of \$200 million and acquisitions of \$282.5 million. This revolving facility matures on December 31, 2002. Borrowings under the facility bear interest at either LIBOR or prime rate plus various applicable

margins which are based upon financial covenant ratio tests. As of March 31, 2000, under our credit agreement, our weighted average interest rate was 8.49%. As of March 31, 2000, we had availability to borrow an additional \$12 million under the working capital revolving facility and an additional \$123 million under the acquisition loan revolving facility.

We are required to pay a quarterly commitment fee at a rate which ranges from .375% to .500% based on specified financial performance criteria. This fee applies to unused commitments under the revolving credit facility and the acquisition loan facility.

The terms of the credit agreement include various restrictive covenants. These covenants include restrictions on additional indebtedness, investments, asset sales, capital expenditures, dividends, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental changes. The covenants also require maintenance of various ratios regarding senior indebtedness, senior interest, and fixed charges.

We believe that internally generated cash flows and borrowings under our revolving credit facility and acquisition facility will be sufficient to finance acquisitions, capital expenditures and working capital requirements through the 12 months following the date of this prospectus. If funds required for future acquisitions exceed existing sources of capital, we will need to increase our credit facilities or obtain additional capital by other means.

REIMBURSEMENT, LEGISLATIVE AND REGULATORY CHANGES

Legislative and regulatory action has resulted in continuing change in the Medicare and Medicaid reimbursement programs which will continue to limit payment increases under these programs. Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings, interpretations, and discretion which may further affect payments made under those programs, and the federal and state governments might, in the future, reduce the funds available under those programs or require more stringent utilization and quality reviews of hospital facilities. Additionally, there may be a continued rise in managed care programs and future restructuring of the financing and delivery of healthcare in the United States. These events could have an adverse effect on our future financial results.

INFLATION

The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. In addition, suppliers pass along rising costs to us in the form of higher prices. We have implemented cost control measures, including our case and resource management program, to curb increases in operating costs and expenses. We have, to date, offset increases in operating costs by increasing reimbursement for services and expanding services. However, we cannot predict our ability to cover or offset future cost increases.

PREPARATION FOR YEAR 2000

As with most industries, hospitals and healthcare systems use information systems that had the potential to misidentify dates beginning January 1, 2000, which could have resulted in systems or equipment failures or miscalculations. We engaged in a comprehensive project to upgrade computer software and hospital equipment and systems to be Year 2000 compliant. This project was successfully completed with no major difficulties encountered.

RECENT ACCOUNTING PRONOUNCEMENT NOT YET ADOPTED

During 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This

statement specifies how to report and display derivative instruments and hedging activities and is effective for fiscal years beginning after June 15, 2000. We are evaluating the impact, if any, of adopting SFAS No. 133.

FEDERAL INCOME TAX EXAMINATIONS

The Internal Revenue Service is examining our filed federal income tax returns for the tax periods ended between December 31, 1993 and December 31, 1996. The Internal Revenue Service has indicated that it is considering a number of adjustments, primarily involving temporary or timing differences. To date, a revenue agent's report has not been issued in connection with the examination of these tax periods. We do not expect that the ultimate outcome of the Internal Revenue Service examinations will have a material effect on us.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes, primarily as a result of our credit agreement which bears interest based on floating rates. We have not taken any action to cover interest rate market risk, and are not a party to any interest rate market risk management activities.

A 1% change in interest rates on variable rate debt would have resulted in interest expense fluctuating approximately \$6 million for 1998, \$8 million for 1999, and \$2 million for the three months ended March 31, 2000.

OVERVIEW OF OUR COMPANY

We are the largest non-urban provider of general hospital healthcare services in the United States in terms of number of facilities and the second largest in terms of revenues and EBITDA. As of April 30, 2000, we owned, leased or operated 49 hospitals, geographically diversified across 20 states, with an aggregate of 4,348 licensed beds. In over 80% of our markets, we are the sole provider of these services. In most of our other markets, we are one of two providers of these services. For the fiscal year ended December 31, 1999, we generated \$1.08 billion in revenues and \$204.2 million in adjusted EBITDA.

In July 1996, an affiliate of Forstmann Little & Co. acquired our predecessor company from its public stockholders. The predecessor company was formed in 1985. The aggregate purchase price for the acquisition was \$1,100.2 million. Wayne T. Smith, who has over 30 years of experience in the healthcare industry, joined our company as President in January 1997, and we named him Chief Executive Officer in April 1997. Under this new ownership and leadership, we have:

- strengthened the senior management team in all key business areas;
- standardized and centralized our operations across key business areas;
- implemented a disciplined acquisition program;
- expanded and improved the services and facilities at our hospitals;
- recruited additional physicians to our hospitals;
- instituted a company-wide regulatory compliance program; and
- divested certain non-core assets.

As a result of these initiatives, we achieved revenue growth of 26.4% in 1999 and 15.1% in 1998. We also achieved growth in adjusted EBITDA of 22.7% in 1999 and 36.1% in 1998. Our adjusted EBITDA margins improved from 16.5% for 1997 to 18.9% for 1999.

Our hospitals typically have 50 to 200 beds and approximate annual revenues ranging from \$12 million to \$70 million. They generally are located in non-urban markets with populations of 20,000 to 80,000 people and economically diverse employment bases. These facilities, together with their medical staffs, provide a wide range of inpatient and outpatient general hospital services and a variety of specialty services.

We target growing, non-urban healthcare markets because of their favorable demographic and economic trends and competitive conditions. Because non-urban service areas have smaller populations, there are generally fewer hospitals and other healthcare service providers in these communities. We believe that smaller populations result in less direct competition for hospital-based services. Also, we believe that non-urban communities generally view the local hospital as an integral part of the community. There is generally a lower level of managed care presence in these markets.

OUR BUSINESS STRATEGY

The key elements of our business strategy are to:

- increase revenue at our facilities;
- grow through selective acquisitions;
- reduce costs; and
- improve quality.

INCREASE REVENUE AT OUR FACILITIES

OVERVIEW. We seek to increase revenue at our facilities by providing a broader range of services in a more attractive care setting, as well as by supporting and recruiting physicians. We identify the healthcare needs of the community by analyzing demographic data and patient referral trends. We also work with local hospital boards, management teams, and medical staffs to determine the number and type of additional physicians needed. Our initiatives to increase revenue include:

- recruiting additional primary care physicians and specialists;
- expanding the breadth of services offered at our hospitals through targeted capital expenditures to support the addition of more complex services, including orthopedics, cardiology, OB/GYN, and occupational medicine; and
- providing the capital to invest in technology and the physical plant at the facilities, particularly in our emergency rooms.

By taking these actions, we believe that we can increase our share of the healthcare dollars spent by local residents and limit inpatient and outpatient migration to larger urban facilities. Total revenue for hospitals operated by us for a full year increased by 7.6% from 1998 to 1999. Total inpatient admissions increased by 4.9% over the same period.

PHYSICIAN RECRUITING. The primary method of adding or expanding medical services is the recruitment of new physicians into the community. A core group of primary care physicians is necessary as an initial contact point for all local healthcare. The addition of specialists who offer services including general surgery, OB/GYN, cardiology, and orthopedics completes the full range of medical and surgical services required to meet a community's core healthcare needs. When we acquire a hospital, we identify the healthcare needs of the community by analyzing demographic data and patient referral trends. We are then able to determine what we believe to be the optimum mix of primary care physicians and specialists. We employ recruiters at the corporate level to support the local hospital managers in their recruitment efforts. During the past three years, we have increased the number of physicians affiliated with us by 320, including 80 in 1997, 84 in 1998, and 156 in 1999. The percentage of recruited physicians commencing practice that were surgeons or specialists grew from 45% in 1997 to 52% in 1999. We do not employ most of our physicians, but rather they are in private practice in their communities. We have been successful in recruiting physicians because of the practice opportunities of physicians in our markets, as well as the lower managed care penetration as compared to urban areas. These physicians are able to earn incomes comparable to incomes earned by physicians in urban centers. As of April 30, 2000, approximately 1,700 physicians were affiliated with our hospitals.

To attract and retain qualified physicians, we provide recruited physicians with various services to assist them in opening and operating their practices, including:

- relocation assistance;
- physician practice management assistance, either through consulting advice or training;
- access to medical office building space adjacent to our hospitals;
- joint marketing programs for community awareness of new services and providers of care in the community;
- case management consulting for best practices; and
- access to a physician advisory board which communicates regularly with physicians regarding a wide range of issues affecting the medical staffs of our hospitals.

EMERGENCY ROOM INITIATIVES. Given that over 50% of our hospital admissions originate in the emergency room, we systematically take steps to increase patient flow in our emergency rooms as a

means of optimizing utilization rates for our hospitals. Furthermore, the impression of our overall operations by our customers is substantially influenced by our emergency room since often that is their first experience with our hospitals. The steps we take to increase patient flow in our emergency rooms include renovating and expanding our emergency room facilities, improving service, and reducing waiting times, as well as publicizing our emergency room capabilities in the local community. We have expanded or renovated four of our emergency room facilities since 1997 and are now in the process of upgrading an additional nine emergency room facilities. Since 1997, we have entered into approximately 20 new contracts with emergency room operating groups to improve performance in our emergency rooms. We have implemented marketing campaigns that emphasize the speed, convenience, and quality of our emergency rooms to enhance each community's awareness of our emergency room services.

Our upgrades include the implementation of specialized software programs designed to assist physicians in making diagnoses and determining treatments. The software also benefits patients and hospital personnel by assisting in proper documentation of patient records. It enables our nurses to provide more consistent patient care and provides clear instructions to patients at time of discharge to help them better understand their treatments.

EXPANSION OF SERVICES. To capture a greater portion of the healthcare spending in our markets and to more efficiently utilize our hospital facilities, we have added a broad range of emergency, outpatient, and specialty services to our hospitals. Depending on the needs of the community, we identify opportunities to expand into various specialties, including orthopedics, cardiology, OB/GYN, and occupational medicine. In addition to expanding services, we have completed major capital projects at selected facilities to offer these types of services. For example, in 1999 we invested \$1 million in a new cardiac catheterization laboratory at our Crestview, Florida hospital. As a result, this laboratory increased the number of procedures it performed by 84%, from 122 in 1998 to 224 in 1999. In 1999, we initiated major capital projects at many of our hospitals. These projects included renovations to nine emergency rooms, two operating rooms, two OB/GYN facilities, and three intensive care units at various hospitals. We believe that through these efforts we will reduce patient migration to competing providers of healthcare services and increase volume.

MANAGED CARE STRATEGY. Managed care has seen growth across the U.S. as health plans expand service areas and membership. As we service primarily non-urban markets, we have limited relationships with managed care organizations. We have responded with a proactive and carefully considered strategy developed specifically for each of our facilities. Our experienced business development department reviews and approves all managed care contracts, which are managed through a central database. The primary mission of this department is to select and evaluate appropriate managed care opportunities, manage existing reimbursement arrangements, negotiate increases, and educate our physicians. We have terminated our only risk sharing capitated contract, which we acquired through our acquisition of a California hospital.

GROW THROUGH SELECTIVE ACQUISITIONS

ACQUISITION CRITERIA. Each year we intend to acquire, on a selective basis, two to four hospitals that fit our acquisition criteria. We pursue acquisition candidates that:

- have a general service area population between 20,000 and 80,000 with a stable or growing population base;
- are the sole or primary provider of acute care services in the community;
- are located more than 25 miles from a competing hospital;
- are not located in an area that is dependent upon a single employer or industry; and
- have financial performance that we believe will benefit from our management's operating skills.

Most hospitals we have acquired are located in service areas having populations within the lower to middle range of our criteria. However, we have also acquired hospitals having service area populations in the upper range of our criteria. For example, in 1998, we acquired a 162-bed facility in Roswell, New Mexico which has a service area population of over 70,000 and is located 200 miles from the nearest urban centers in Albuquerque, New Mexico and Lubbock, Texas. Facilities similar to the one located in Roswell offer even greater opportunities to expand services given their larger service area populations.

Most of our acquisition targets are municipal and other not-for-profit hospitals. We believe that our access to capital and ability to recruit physicians make us an attractive partner for these communities. In addition, we have found that communities located in states where we already operate a hospital are more receptive to us when they consider selling their hospital because they are aware of our operating track record with respect to our facilities within the state.

ACQUISITION OPPORTUNITIES. We believe that there are significant opportunities for growth through the acquisition of additional facilities. We estimate that there are currently approximately 400 hospitals that meet our acquisition criteria. These hospitals are primarily not-for-profit or municipally owned. Many of these hospitals have experienced declining financial performance, lack the resources necessary to maintain and improve facilities, have difficulty attracting qualified physicians, and are challenged by the changing healthcare industry. We believe that these circumstances will continue and may encourage owners of these facilities to turn to companies, like ours, that have greater management expertise and financial resources and can enhance the local availability of healthcare.

After we acquire a hospital, we:

- improve hospital operations by implementing our standardized and centralized programs and appropriate expense controls as well as by managing staff levels;
- recruit additional primary care physicians and specialists;
- expand the breadth of services offered in the community to increase local market share and reduce inpatient and outpatient migration to larger urban hospitals; and
- implement appropriate capital expenditure programs to renovate the facility, add new services, and upgrade equipment.

REPLACEMENT FACILITIES. In some cases, we enter into agreements with the owners of hospitals to construct a new facility to be owned or leased by us that will replace the existing facility. The new facilities offer many benefits to us as well as the local community, including:

- state of the art technology, which attracts physicians trained in the latest medical procedures;
- physical plant efficiencies designed to enhance the flow of services, including emergency room and outpatient services;
- improved registration and business office functions; and
- local support for the institution.

As an obligation under hospital purchase agreements in effect as of April 30, 2000, we are required to construct four replacement hospitals through 2005 with an aggregate estimated construction cost of approximately \$100 million.

DISCIPLINED ACQUISITION APPROACH. We have been disciplined in our approach to acquisitions. We have a dedicated team of internal and external professionals who complete a thorough review of the hospital's financial and operating performance, the demographics of the market, and the state of the physical plant of the facilities. Based on our historical experience, we then build a pro forma financial

model that reflects what we believe can be accomplished under our ownership. Whether we buy or lease the existing facility or agree to construct a replacement hospital, we have been disciplined in our approach to pricing. We typically begin the acquisition process by entering into a non-binding letter of intent with an acquisition candidate. After we complete business and financial due diligence and financial modeling, we determine whether or not to enter into a definitive agreement.

ACQUISITION EFFORTS. We have significantly enhanced our acquisition efforts in the last three years in an effort to achieve our goals. We have focused on identifying possible acquisition opportunities through expanding our internal acquisition group and working with a broad range of financial advisors who are active in the sale of hospitals, especially in the not-for-profit sector. Since July 1996, we have acquired 20 hospitals through April 30, 2000, for an aggregate investment of approximately \$550 million, including working capital. We have completed the following acquisitions since July 1996:

HOSPITAL NAME	CITY	STATE	YEAR OF ACQUISITION/LEASE INCEPTION	LICENSED BEDS (a)
Chesterfield General (b)	Cheraw	SC	1996	66
Marlboro Park (b)	Bennettsville	SC	1996	109
Northeast Medical (b)	Bonham	TX	1996	75
Cleveland Regional (b)	Cleveland	TX	1996	115
River West Medical (b)	Plaquemine	LA	1996	80
Marion Memorial	Marion	IL	1996	99
Lake Granbury Medical	Granbury	TX	1997	56
Payson Regional	Payson	AZ	1997	66
Eastern New Mexico	Roswell	NM	1998	162
Watsonville Community	Watsonville	CA	1998	102
Martin General	Williamston	NC	1998	49
Fallbrook Hospital	Fallbrook	CA	1998	47
Greensville Memorial	Emporia	VA	1999	114
Berwick Hospital	Berwick	PA	1999	144
King's Daughters	Greenville	MS	1999	137
Big Bend Regional (c)	Alpine	TX	1999	40
Evanston Regional	Evanston	WY	1999	42
Southampton Memorial	Franklin	VA	2000	105
Northeastern Regional	Las Vegas	NM	2000	54
Lakeview Community	Eufaula	AL	2000	74
Western Arizona Regional (d)	Bullhead City	AZ	2000	90

- (a) Licensed beds are the number of beds for which the appropriate state agency licenses a facility regardless of whether the beds are actually available for patient use.
- (b) Acquired in a single transaction from a private, for-profit company.
- (c) New hospital constructed to replace existing facility that we managed.
- (d) On May 15, 2000, we entered into a definitive agreement to acquire this hospital from a tax exempt entity for total consideration of \$66 million, plus working capital. This facility is the sole provider of general hospital services in its community. Subject to the terms and conditions of the agreement, we expect to close this acquisition in July 2000.

Since 1998, we have also operated a hospital in Tooele, Utah under an operating agreement pending our completion of the construction of a replacement facility.

REDUCE COSTS

OVERVIEW. To improve efficiencies and increase operating margins, we implement cost containment programs and adhere to operating philosophies which include:

- standardizing and centralizing our operations;
- optimizing resource allocation by utilizing our company-devised case and resource management program, which assists in improving clinical care and containing expenses;
- capitalizing on purchasing efficiencies through the use of company-wide standardized purchasing contracts and terminating or renegotiating certain vendor contracts;
- installing a standardized management information system, resulting in more efficient billing and collection procedures; and
- managing staffing levels according to patient volumes and the appropriate level of care.

In addition, each of our hospital management teams is supported by our centralized operational, reimbursement, regulatory, and compliance expertise as well as by our senior management team, which has an average of 20 years of experience in the healthcare industry. Adjusted EBITDA margins on a same hospitals basis improved from 18.9% in 1998 to 19.7% in 1999.

STANDARDIZATION AND CENTRALIZATION. Our standardization and centralization initiatives encompass nearly every aspect of our business, from developing standard policies and procedures with respect to patient accounting and physician practice management, to implementing standard processes to initiate, evaluate, and complete construction projects. Our standardization and centralization initiatives have been a key element in improving our adjusted EBITDA margins.

- BILLING AND COLLECTIONS. We have adopted standard policies and procedures with respect to billing and collections. We have also automated and standardized various components of the collection cycle, including statement and collection letters and the movement of accounts through the collection cycle. Upon completion of an acquisition, our management information system team converts the hospital's existing information system to our standardized system. This enables us to quickly implement our business controls and cost containment initiatives.
- PHYSICIAN SUPPORT. We support our physicians to enhance their performance. We have implemented physician practice management seminars and training. We host these seminars at least quarterly. All newly recruited physicians are required to attend a three-day introductory seminar. The subjects covered in these comprehensive seminars include:
 - u our corporate structure and philosophy;
 - u provider applications, physician to physician relationships, and performance standards;
 - u marketing and volume building techniques;
 - u medical records, equipment, and supplies;
 - u review of coding and documentation guidelines;
 - u compliance, legal, and regulatory issues;
 - u understanding financial statements;
 - u national productivity standards; and
 - u managed care.

- MATERIALS MANAGEMENT. We have standardized and centralized our operations with respect to medical supplies and equipment and pharmaceuticals used in our hospitals. In 1997, after evaluating our vendor contract pricing, we entered into an affiliation agreement with BuyPower, a group purchasing organization owned by Tenet Healthcare Corporation. At the present time, BuyPower is the source for a substantial portion of our medical supplies and equipment and pharmaceuticals. We have reduced supply costs for hospitals operated by us for a full year from 11.8% of our revenue in 1998 to 11.5% of our revenue in 1999.
- FACILITIES MANAGEMENT. We have standardized interiors, lighting, and furniture programs. We have also implemented a standard process to initiate, evaluate, and complete construction projects. Our corporate staff monitors all construction projects and pays all construction project invoices. Our initiatives in this area have reduced our construction costs while maintaining the same level of quality and improving upon the time it takes us to complete these projects.
- OTHER INITIATIVES. We have also improved margins by implementing standard programs with respect to ancillary services support in areas including pharmacy, laboratory imaging, home health, skilled nursing, emergency medicine, and health information management. We have reduced costs associated with these services by improving contract terms, standardizing information systems, and encouraging adherence to best practices guidelines.

CASE AND RESOURCE MANAGEMENT. Our case and resource management program is a company-devised program developed in response to ongoing reimbursement changes with the goal of improving clinical care and cost containment. The program focuses on:

- appropriately treating patients along the care continuum;
- reducing inefficiently applied processes, procedures, and resources;
- developing and implementing standards for operational best practices; and
- using on-site clinical facilitators to train and educate care practitioners on identified best practices.

Our case and resource management program integrates the functions of utilization review, discharge planning, overall clinical management, and resource management into a single effort to improve the quality and efficiency of care. Issues evaluated in this process include patient treatment, patient length of stay, and utilization of resources. The average length of inpatient stays decreased from 4.5 days in 1997 to 4.0 days in 1999. We believe this decrease was primarily a result of these initiatives.

Under our case and resource management program, patient care begins with a clinical assessment of the appropriate level of care, discharge planning, and medical necessity for planned services. Once a patient is admitted to the hospital, we conduct a review for ongoing medical necessity using appropriateness criteria. We reassess and adjust discharge plan options as the needs of the patient change. We closely monitor cases to prevent delayed service or inappropriate utilization of resources. Once the patient obtains clinical improvement, we encourage the attending physician to consider alternatives to hospitalization through discussions with the facility's physician advisor. Finally, we refer the patient to the appropriate post-hospitalization resources.

IMPROVE QUALITY

We have implemented various programs to ensure improvement in the quality of care provided. We have developed training programs for all senior hospital management, chief nursing officers, quality directors, physicians and other clinical staff. We share information among our hospital management to implement best practices and assist in complying with regulatory requirements. We have standardized accreditation documentation and requirements. Corporate support is provided to each facility to assist with accreditation reviews. Several of our facilities have received accreditation "with commendation"

from the Joint Commission on Accreditation of Healthcare Organizations. All hospitals conduct patient, physician, and staff satisfaction surveys to help identify methods of improving the quality of care.

Each of our hospitals is governed by a board of trustees, which includes members of the hospital's medical staff. The board of trustees establishes policies concerning the hospital's medical, professional, and ethical practices, monitors these practices, and is responsible for ensuring that these practices conform to legally required standards. We maintain quality assurance programs to support and monitor quality of care standards and to meet Medicare and Medicaid accreditation and regulatory requirements. Patient care evaluations and other quality of care assessment activities are reviewed and monitored continuously.

OUR FACILITIES

Our hospitals are general care hospitals offering a wide range of inpatient and outpatient medical services. These services generally include internal medicine, general surgery, cardiology, oncology, orthopedics, OB/GYN, diagnostic and emergency room services, outpatient surgery, laboratory, radiology, respiratory therapy, physical therapy, and rehabilitation services. In addition, some of our hospitals provide skilled nursing and home health services based on individual community needs.

For each of our hospitals, the following table shows its location, the date of its acquisition or lease inception and the number of licensed beds as of April 30, 2000:

HOSPITAL	CITY	LICENSED BEDS(a)	DATE OF ACQUISITION/LEASE INCEPTION	OWNERSHIP TYPE
ALABAMA				
Woodland Community Hospital.....	Cullman	100	October, 1994	Owned
Parkway Medical Center Hospital.....	Decatur	120	October, 1994	Owned
L.V. Stabler Memorial Hospital.....	Greenville	72	October, 1994	Owned
Hartselle Medical Center.....	Hartselle	150	October, 1994	Owned
Edge Regional Hospital.....	Troy	97	December, 1994	Owned
Lakeview Community Hospital.....	Eufaula	74	April, 2000	Owned
ARIZONA				
Payson Regional Medical Center.....	Payson	66	August, 1997	Leased
ARKANSAS				
Harris Hospital.....	Newport	132	October, 1994	Owned
Randolph County Medical Center.....	Pocahontas	50	October, 1994	Leased
CALIFORNIA				
Barstow Community Hospital.....	Barstow	56	January, 1993	Leased
Fallbrook Hospital.....	Fallbrook	47	November, 1998	Operated (b)
Watsonville Community Hospital.....	Watsonville	102	September, 1998	Owned
FLORIDA				
North Okaloosa Medical Center.....	Crestview	110	March, 1996	Owned
GEORGIA				
Berrien County Hospital.....	Nashville	71	October, 1994	Leased
Fannin Regional Hospital.....	Blue Ridge	34	January, 1986	Owned
ILLINOIS				
Crossroads Community Hospital.....	Mt. Vernon	55	October, 1994	Owned
Marion Memorial Hospital.....	Marion	99	October, 1996	Leased
KENTUCKY				
Parkway Regional Hospital.....	Fulton	70	May, 1992	Owned
Three Rivers Medical Center.....	Louisa	90	May, 1993	Owned
Kentucky River Medical Center.....	Jackson	55	August, 1995	Leased

(CONTINUED ON FOLLOWING PAGE)

HOSPITAL	CITY	LICENSED BEDS(a)	DATE OF ACQUISITION/LEASE INCEPTION	OWNERSHIP TYPE
LOUISIANA				
Byrd Regional Hospital.....	Leesville	70	October, 1994	Owned
Sabine Medical Center.....	Many	52	October, 1994	Owned
River West Medical Center.....	Plaquemine	80	August, 1996	Leased
MISSISSIPPI				
The King's Daughters Hospital.....	Greenville	137	September, 1999	Owned
MISSOURI				
Moberly Regional Medical Center.....	Moberly	114	November, 1993	Owned
NEW MEXICO				
Mimbres Memorial Hospital.....	Deming	49	March, 1996	Owned
Eastern New Mexico Medical Center.....	Roswell	162	April, 1998	Owned
Northeastern Regional Hospital.....	Las Vegas	50	April, 2000	Leased
NORTH CAROLINA				
Martin General Hospital.....	Williamston	49	November, 1998	Leased
PENNSYLVANIA				
Berwick Hospital.....	Berwick	144	March, 1999	Owned
SOUTH CAROLINA				
Marlboro Park Hospital.....	Bennettsville	109	August, 1996	Leased
Chesterfield General Hospital.....	Cheraw	66	August, 1996	Leased
Springs Memorial Hospital.....	Lancaster	194	November, 1994	Owned
TENNESSEE				
Lakeway Regional Hospital.....	Morristown	135	May, 1993	Owned
Scott County Hospital.....	Oneida	99	November, 1989	Leased
Cleveland Community Hospital.....	Cleveland	100	October, 1994	Owned
White County Community Hospital.....	Sparta	60	October, 1994	Owned
TEXAS				
Big Bend Regional Medical Center.....	Alpine	40	October, 1999	Owned
Northeast Medical Center.....	Bonham	75	August, 1996	Owned
Cleveland Regional Medical Center.....	Cleveland	115	August, 1996	Leased
Highland Medical Center.....	Lubbock	123	September, 1986	Owned
Scenic Mountain Medical Center.....	Big Spring	150	October, 1994	Owned
Hill Regional Hospital.....	Hillsboro	92	October, 1994	Owned
Lake Granbury Medical Center.....	Granbury	56	January, 1997	Leased
UTAH				
Tooele Valley Regional Medical Center.....	Tooele	38	November, 1998	Operated (c)
VIRGINIA				
Greensville Memorial Hospital.....	Emporia	114	March, 1999	Leased
Russell County Medical Center.....	Lebanon	78	September, 1986	Owned
Southampton Memorial Hospital.....	Franklin	105	March, 2000	Leased
WYOMING				
Evanston Regional Hospital.....	Evanston	42	November, 1999	Owned

(a) Licensed beds are the number of beds for which the appropriate state agency licenses a facility regardless of whether the beds are actually available for patient use.

(b) We operate this hospital under a lease-leaseback and operating agreement. We recognize all revenue and expenses associated with this hospital on our financial statements.

(c) We operate this hospital pending our completion of the construction of a replacement facility. Our fee is equal to the EBITDA of the facility. For purposes of reporting our operating statistics, we have excluded this facility.

SELECTED OPERATING DATA

The following table sets forth operating statistics for our hospitals for each of the years presented. Statistics for 1997 include a full year of operations for 36 hospitals, including one hospital acquired on January 1, 1997, and a partial period for one hospital acquired during the year. Statistics for 1998 include a full year of operations for 37 hospitals and partial periods for four hospitals acquired during the year. Statistics for 1999 include a full year of operations for 41 hospitals and partial periods for four hospitals acquired, and one hospital constructed and opened, during the year.

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Number of hospitals (a).....	37	41	46
Licensed beds (a)(b).....	3,288	3,644	4,115
Beds in service (a)(c).....	2,543	2,776	3,123
Admissions (d).....	88,103	100,114	120,414
Adjusted admissions (e).....	153,618	177,075	217,006
Patient days (f).....	399,012	416,845	478,658
Average length of stay (days) (g).....	4.5	4.2	4.0
Occupancy rate (beds in service) (h).....	43.1%	43.3%	44.1%
Net inpatient revenue as a % of total net revenue.....	57.3%	55.7%	52.7%
Net outpatient revenue as a % of total net revenue.....	41.5%	42.6%	45.5%

	YEAR ENDED DECEMBER 31,		PERCENTAGE INCREASE (DECREASE)
	1998	1999	
SAME HOSPITALS DATA (i)			
Admissions (d).....	100,114	105,053	4.9%
Adjusted admissions (e).....	177,075	190,661	7.7%
Patient days (f).....	416,845	419,942	0.7%
Average length of stay (days) (g).....	4.2	4.0	(4.8%)
Occupancy rate (beds in service) (h).....	43.3%	43.5%	

- (a) At end of period.
- (b) Licensed beds are the number of beds for which the appropriate state agency licenses a facility regardless of whether the beds are actually available for patient use.
- (c) Beds in service are the number of beds that are readily available for patient use.
- (d) Admissions represent the number of patients admitted for inpatient treatment.
- (e) Adjusted admissions is a general measure of combined inpatient and outpatient volume. We computed adjusted admissions by multiplying admissions by gross patient revenues and then dividing that number by gross inpatient revenues.
- (f) Patient days represent the total number of days of care provided to inpatients.
- (g) Average length of stay (days) represents the average number of days inpatients stay in our hospitals.
- (h) We calculated percentages by dividing the average daily number of inpatients by the weighted average of beds in service.
- (i) Includes acquired hospitals to the extent we operated them during comparable periods in both years.

SOURCES OF REVENUE

We receive payment for healthcare services provided by our hospitals from:

- the federal Medicare program;
- state Medicaid programs;
- healthcare insurance carriers, health maintenance organizations or "HMOs," preferred provider organizations or "PPOs," and other managed care programs; and
- patients directly.

The following table presents the approximate percentages of net revenue received from private, Medicare, Medicaid and other sources for the periods indicated. The data for the years presented are not strictly comparable due to the significant effect that hospital acquisitions and dispositions have had on these statistics.

NET REVENUE BY PAYOR SOURCE	1997	1998	1999
Medicare.....	43.9%	39.0%	36.2%
Medicaid.....	11.5%	10.2%	11.9%
Managed Care (HMO/PPO).....	7.7%	14.0%	14.3%
Private and Other.....	36.9%	36.8%	37.6%
Total.....	100.0%	100.0%	100.0%

As shown above, we receive a substantial portion of our revenue from the Medicare and Medicaid programs.

Medicare is a federal program that provides medical insurance benefits to persons age 65 and over, some disabled persons, and persons with end-stage renal disease. Medicaid is a federal-state funded program, administered by the states, which provides medical benefits to individuals who are unable to afford healthcare. All of our hospitals are certified as providers of Medicare and Medicaid services. Amounts received under the Medicare and Medicaid programs are generally significantly less than the hospital's customary charges for the services provided. In recent years, changes made to the Medicare and Medicaid programs have further reduced payment to hospitals. We expect this trend to continue. Since an important portion of our revenues comes from patients under Medicare and Medicaid programs, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in these programs.

In addition to government programs, we are paid by private payors, which include insurance companies, HMOs, PPOs, other managed care companies, and employers, as well as by patients directly. Patients are generally not responsible for any difference between customary hospital charges and amounts paid for hospital services by Medicare and Medicaid programs, insurance companies, HMOs, PPOs, and other managed care companies, but are responsible for services not covered by these programs or plans, as well as for deductibles and co-insurance obligations of their coverage. The amount of these deductibles and co-insurance obligations has increased in recent years. Collection of amounts due from individuals is typically more difficult than collection of amounts due from government or business payors. To further reduce their healthcare costs, an increasing number of insurance companies, HMOs, PPOs, and other managed care companies are negotiating discounted fee structures or fixed amounts for hospital services performed, rather than paying healthcare providers the amounts billed. We negotiate discounts with managed care companies which are typically smaller than discounts under governmental programs. If an increased number of insurance companies, HMOs, PPOs, and other managed care companies succeed in negotiating discounted fee structures or fixed amounts, our results of operations may be negatively affected. For more information on the payment programs on which our revenues depend, see "--Payment."

Hospital revenues depend upon inpatient occupancy levels, the volume of outpatient procedures, and the charges or negotiated payment rates for hospital services provided. Charges and payment rates for routine inpatient services vary significantly depending on the type of service performed and the geographic location of the hospital. In recent years, we have experienced a significant increase in revenue received from outpatient services. We attribute this increase to:

- advances in technology, which have permitted us to provide more services on an outpatient basis; and
- pressure from Medicare or Medicaid programs, insurance companies, and managed care plans to reduce hospital stays and to reduce costs by having services provided on an outpatient rather than on an inpatient basis.

SUPPLY CONTRACTS

During fiscal 1997, we entered into an affiliation agreement with BuyPower, a group purchasing organization owned by Tenet Healthcare Corporation. Our affiliation with BuyPower combines the purchasing power of our hospitals with the purchasing power of more than 600 other healthcare providers affiliated with the program. This increased purchasing power has resulted in reductions in the prices paid by our hospitals for medical supplies and equipment and pharmaceuticals. In March 2000, we entered into an agreement with Broadlane Inc., an affiliate of Tenet Healthcare Corporation, to use their e-commerce marketplace as our exclusive internet purchasing portal.

INDUSTRY OVERVIEW

The U.S. Healthcare Financing Administration estimated that in 1999, total U.S. healthcare expenditures grew by 6.0% to \$1.2 trillion. It projects total U.S. healthcare spending to grow by 7.1% in 2000 and by 6.5% annually from 2001 through 2008. By these estimates, healthcare expenditures will account for approximately \$2.2 trillion, or 16.2% of the total U.S. gross domestic product, by 2008.

Hospital services, the market in which we operate, is the largest single category of healthcare at 33.7% of total healthcare spending in 1999, or \$401.3 billion. The U.S. Healthcare Financing Administration projects the hospital services category to grow by 5.7% per year through 2008. It expects growth in hospital healthcare spending to continue due to the aging of the U.S. population and consumer demand for expanded medical services. As hospitals remain the primary setting for healthcare delivery, it expects hospital services to remain the largest category of healthcare spending.

U.S. HOSPITAL INDUSTRY. The U.S. hospital industry is broadly defined to include acute care, rehabilitation, and psychiatric facilities that are either public (government owned and operated), not-for-profit private (religious or secular), or for-profit institutions (investor owned). According to the American Hospital Association, there are approximately 5,015 inpatient hospitals in the U.S. which are not-for-profit owned, investor owned, or state or local government owned. Of these hospitals, 44% are located in non-urban communities. These facilities offer a broad range of healthcare services, including internal medicine, general surgery, cardiology, oncology, neurosurgery, orthopedics, OB/GYN, and emergency services. In addition, hospitals also offer other ancillary services including psychiatric, diagnostic, rehabilitation, home health, and outpatient surgery services.

URBAN VS. NON-URBAN HOSPITALS

According to the U.S. Census Bureau, 25% of the U.S. population lives in communities designated as non-urban. In these non-urban communities, hospitals are typically the primary source of healthcare and, in many cases, a single hospital is the only provider of general healthcare services. According to the American Hospital Association, in 1998, there were 2,199 non-urban hospitals in the U.S. We believe that a majority of these hospitals are owned by not-for-profit or governmental entities.

FACTORS AFFECTING PERFORMANCE. Among the many factors that can influence a hospital's financial and operating performance are:

- facility size and location;
- facility ownership structure (i.e., tax-exempt or investor owned);
- a facility's ability to participate in group purchasing organizations; and
- facility payor mix.

We believe that non-urban hospitals are generally able to obtain higher operating margins than urban hospitals. Factors contributing to a non-urban hospital's margin advantage include fewer patients with complex medical problems, a lower cost structure, limited competition, and favorable Medicare payment provisions. Patients needing the most complex care are more often served by the larger and/or more specialized urban hospitals. A non-urban hospital's lower cost structure results from its geographic location as well as the lower number of patients treated who need the most highly advanced services. Additionally, because non-urban hospitals are generally sole providers or one of a small group of providers in their markets, there is limited competition. This generally results in more favorable pricing with commercial payors. Medicare has special payment provisions for "sole community hospitals." Under present law, hospitals that qualify for this designation receive higher reimbursement rates and are guaranteed capital reimbursement equal to 90% of capital costs. As of December 31, 1999, 11 of our hospitals were "sole community hospitals." In addition, we believe that non-urban communities are generally characterized by a high level of patient and physician loyalty that fosters cooperative relationships among the local hospitals, physicians, employees, and patients.

The type of third party responsible for the payment of services performed by healthcare service providers is also an important factor which affects hospital margins. These providers have increasingly exerted pressure on healthcare service providers to reduce the cost of care. The most active providers in this regard have been HMOs, PPOs, and other managed care organizations. The characteristics of non-urban markets make them less attractive to these managed care organizations. This is partly because the limited size of non-urban markets and their diverse, non-national employer bases minimize the ability of managed care organizations to achieve economies of scale. In 1999, approximately 14% of our revenues were paid by managed care organizations.

HOSPITAL INDUSTRY TRENDS

DEMOGRAPHIC TRENDS. According to the U.S. Census Bureau, there are approximately 35 million Americans aged 65 or older in the U.S. today, who comprise approximately 13% of the total U.S. population. By the year 2030 the number of elderly is expected to climb to 69 million, or 20% of the total population. Due to the increasing life expectancy of Americans, the number of people aged 85 years and older is also expected to increase from 4.3 million to 8.5 million by the year 2030. This increase in life expectancy will increase demand for healthcare services and, as importantly, the demand for innovative, more sophisticated means of delivering those services. Hospitals, as the largest category of care in the healthcare market, will be among the main beneficiaries of this increase in demand. Based on data compiled for us, the populations of the service areas where our hospitals are located grew by 6.9% from 1990 to 1997 and are projected to grow by 4.6% from 1998 to 2002. The number of people aged 65 or older in these service areas grew by 16.4% from 1990 to 1997 and is projected to grow by 5.7% from 1998 to 2002.

CONSOLIDATION. During the late 1980s and early 1990s, there was significant industry consolidation involving large, investor owned hospital companies seeking to achieve economies of scale. While consolidation activity in the hospital industry is continuing, the consolidation is currently primarily taking place through mergers and acquisitions involving not-for-profit hospital systems. Reasons for this activity include:

- limited access to capital;
- financial performance issues, including challenges associated with changes in reimbursement;
- the desire to enhance the local availability of healthcare in the community;
- the need and ability to recruit primary care physicians and specialists; and
- the need to achieve general economies of scale and to gain access to standardized and centralized functions, including favorable supply agreements.

SHIFTING UTILIZATION TRENDS. Over the past decade, many procedures that had previously required hospital visits with overnight stays have been performed on an outpatient basis. This shift has been driven by cost containment efforts led by private and government payors. The focus on cost containment has coincided with advancements in medical technology that have allowed patients to be treated with less invasive procedures that do not require overnight stays. According to the American Hospital Association, the number of surgeries performed on an inpatient basis declined from 1994 to 1998 at an average annual rate of 0.3%, from 9.8 million in 1994 to 9.7 million in 1998. During the same period, the number of outpatient surgeries increased at an average annual rate of 4.3%, from 13.2 million in 1994 to 15.6 million in 1998. The mix of inpatient as compared to outpatient surgeries shifted from a ratio of 42.8% inpatient to 57.2% outpatient in 1994 to a ratio of 38.4% inpatient to 61.6% outpatient in 1998.

These trends have led to a reduction in the average length of stay and, as a result, inpatient utilization rates. According to the American Hospital Association, the average length of stay in general hospitals has declined from 6.7 days in 1994 to 6.0 days in 1998.

GOVERNMENT REGULATION

OVERVIEW. The healthcare industry is required to comply with extensive government regulation at the federal, state, and local levels. Under these regulations, hospitals must meet requirements to be certified as hospitals and qualified to participate in government programs, including the Medicare and Medicaid programs. These requirements relate to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, hospital use, rate-setting, compliance with building codes, and environmental protection laws. There are also extensive regulations governing a hospital's participation in these government programs. If we fail to comply with applicable laws and regulations, we can be subject to criminal penalties and civil sanctions, our hospitals can lose their licenses and we could lose our ability to participate in these government programs. In addition, government regulations may change. If that happens, we may have to make changes in our facilities, equipment, personnel, and services so that our hospitals remain certified as hospitals and qualified to participate in these programs. We believe that our hospitals are in substantial compliance with current federal, state, and local regulations and standards.

Hospitals are subject to periodic inspection by federal, state, and local authorities to determine their compliance with applicable regulations and requirements necessary for licensing and certification. All of our hospitals are licensed under appropriate state laws and are qualified to participate in Medicare and Medicaid programs. In addition, most of our hospitals are accredited by the Joint Commission on Accreditation of Healthcare Organizations. This accreditation indicates that a hospital satisfies the applicable health and administrative standards to participate in Medicare and Medicaid programs.

FRAUD AND ABUSE LAWS. Participation in the Medicare program is heavily regulated by federal statute and regulation. If a hospital fails substantially to comply with the requirements for participating in the Medicare program, the hospital's participation in the Medicare program may be terminated and/or civil or criminal penalties may be imposed. For example, a hospital may lose its ability to participate in the Medicare program if it performs any of the following acts:

- making claims to Medicare for services not provided or misrepresenting actual services provided in order to obtain higher payments;
- paying money to induce the referral of patients where services are reimbursable under a federal health program; or
- failing to provide treatment to any individual who comes to a hospital's emergency room with an "emergency medical condition" or otherwise failing to properly treat and transfer emergency patients.

The Health Insurance Portability and Accountability Act of 1996 broadened the scope of the fraud and abuse laws by adding several criminal statutes that are not related to receipt of payments from a federal healthcare program. The Accountability Act created civil penalties for conduct, including upcoding and billing for medically unnecessary goods or services. It established new enforcement mechanisms to combat fraud and abuse. These include a bounty system, where a portion of the payments recovered is returned to the government agencies, as well as a whistleblower program. This law also expanded the categories of persons that may be excluded from participation in federal healthcare programs.

Another law regulating the healthcare industry is a section of the Social Security Act, known as the "anti-kickback" or "fraud and abuse" statute. This law prohibits some business practices and relationships under Medicare, Medicaid, and other federal healthcare programs. These practices include the payment, receipt, offer, or solicitation of money in connection with the referral of patients covered by a federal or state healthcare program. Violations of the anti-kickback statute may be punished by criminal and civil fines, exclusion from federal healthcare programs, and damages up to three times the total dollar amount involved.

The Office of Inspector General of the Department of Health and Human Services is authorized to publish regulations outlining activities and business relationships that would be deemed not to violate the anti-kickback statute. These regulations are known as "safe harbor" regulations. However, the failure of a particular activity to comply with the safe harbor regulations does not mean that the activity violates the anti-kickback statute.

The Office of Inspector General is responsible for identifying fraud and abuse activities in government programs. In order to fulfill its duties, the Office of Inspector General performs audits, investigations, and inspections. In addition, it provides guidance to healthcare providers by identifying types of activities that could violate the anti-kickback statute. The Office of the Inspector General has identified the following incentive arrangements as potential violations:

- payment of any incentive by the hospital each time a physician refers a patient to the hospital;
- use of free or significantly discounted office space or equipment for physicians in facilities usually located close to the hospital;
- provision of free or significantly discounted billing, nursing, or other staff services;
- free training for a physician's office staff including management and laboratory techniques;
- guarantees which provide that if the physician's income fails to reach a predetermined level, the hospital will pay any portion of the remainder;
- low-interest or interest-free loans, or loans which may be forgiven if a physician refers patients to the hospital;

- payment of the costs of a physician's travel and expenses for conferences; or
- payment of services which require few, if any, substantive duties by the physician, or payment for services in excess of the fair market value of the services rendered.

We have a variety of financial relationships with physicians who refer patients to our hospitals. Physicians own interests in a few of our facilities. Physicians may also own our stock. These physicians may acquire some of these shares from the reserved shares offered at the initial public offering price. We also have contracts with physicians providing for a variety of financial arrangements, including employment contracts, leases, management agreements, and professional service agreements. We provide financial incentives to recruit physicians to relocate to communities served by our hospitals. These incentives include revenue guarantees and, in some cases, loans. Although we believe that we have structured our arrangements with physicians in light of the "safe harbor" rules, we cannot assure you that regulatory authorities will not determine otherwise. If that happens, we would be subject to criminal and civil penalties and/or exclusion from participating in Medicare, Medicaid, or other government healthcare programs.

The Social Security Act also includes a provision commonly known as the "Stark law." This law prohibits physicians from referring Medicare and Medicaid patients to healthcare entities in which they or any of their immediate family members have ownership or other financial interests. These types of referrals are commonly known as "self referrals." Sanctions for violating the Stark law include civil money penalties, assessments equal to twice the dollar value of each service, and exclusion from Medicare and Medicaid programs. There are ownership and compensation arrangement exceptions to the self-referral prohibition. One exception allows a physician to make a referral to a hospital if the physician owns the entire hospital, as opposed to an ownership interest in a department of the hospital. Another exception allows a physician to refer patients to a healthcare entity in which the physician has an ownership interest if the entity is located in a rural area, as defined in the statute. There are also exceptions for many of the customary financial arrangements between physicians and providers, including employment contracts, leases, and recruitment agreements. The federal government has not finalized its regulations which will interpret several of the provisions included in the Stark law. We have structured our financial arrangements with physicians to comply with the statutory exceptions included in the Stark law. However, when the government finalizes these regulations, it may interpret certain provisions of this law in a manner different from the manner with which we have interpreted them. We cannot predict the final form that such regulations will take or the effect those regulations will have on us.

Many states in which we operate also have adopted, or are considering adopting, similar laws. Some of these state laws apply even if the payment for care does not come from the government. These statutes typically provide criminal and civil penalties as well as loss of licensure. While there is little precedent for the interpretation or enforcement of these state laws, we have attempted to structure our financial relationships with physicians and others in light of these laws. However, if we are found to have violated these state laws, it could result in the imposition of criminal and civil penalties as well as possible licensure revocation.

CORPORATE PRACTICE OF MEDICINE FEE-SPLITTING. Some states have laws that prohibit unlicensed persons or business entities, including corporations, from employing physicians. Some states also have adopted laws that prohibit direct or indirect payments or fee-splitting arrangements between physicians and unlicensed persons or business entities. Possible sanctions for violations of these restrictions include loss of a physician's license, civil and criminal penalties and rescission of business arrangements. These laws vary from state to state, are often vague and have seldom been interpreted by the courts or regulatory agencies. We structure our arrangements with healthcare providers to comply with the relevant state law. However, we cannot assure you that governmental officials charged with responsibility for enforcing these laws will not assert that we, or transactions in which we are involved,

are in violation of these laws. These laws may also be interpreted by the courts in a manner inconsistent with our interpretations.

EMERGENCY MEDICAL TREATMENT AND ACTIVE LABOR ACT. The Emergency Medical Treatment and Active Labor Act imposes requirements as to the care that must be provided to anyone who comes to facilities providing emergency medical services seeking care before they may be transferred to another facility or otherwise denied care. Sanctions for failing to fulfill these requirements include exclusion from participation in Medicare and Medicaid programs and civil money penalties. In addition, the law creates private civil remedies which enable an individual who suffers personal harm as a direct result of a violation of the law to sue the offending hospital for damages and equitable relief. A medical facility that suffers a financial loss as a direct result of another participating hospital's violation of the law also has a similar right. Although we believe that our practices are in compliance with the law, we can give no assurance that governmental officials responsible for enforcing the law or others will not assert we are in violation of these laws.

FALSE CLAIMS ACT. Another trend in healthcare litigation is the use of the False Claims Act. This law has been used not only by the U.S. government, but also by individuals who bring an action on behalf of the government under the law's "qui tam" or "whistleblower" provisions. When a private party brings a qui tam action under the False Claims Act, the defendant will generally not be aware of the lawsuit until the government makes a determination whether it will intervene and take a lead in the litigation.

Civil liability under the False Claims Act can be up to three times the actual damages sustained by the government plus civil penalties for each separate false claim. There are many potential bases for liability under the False Claims Act. Although liability under the False Claims Act arises when an entity knowingly submits a false claim for reimbursement to the federal government, the False Claims Act defines the term "knowingly" broadly. Thus, although simple negligence generally will not give rise to liability under the False Claims Act, submitting a claim with reckless disregard to its truth or falsity can constitute "knowingly" submitting a claim. See "--Legal Proceedings" for a description of pending, unsealed False Claims Act litigation.

HEALTHCARE REFORM. The healthcare industry continues to attract much legislative interest and public attention. In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that would effect major changes in the healthcare system. Proposals that have been considered include cost controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, and mandatory health insurance coverage for employees. The costs of implementing some of these proposals would be financed, in part, by reductions in payments to healthcare providers under Medicare, Medicaid, and other government programs. We cannot predict the course of future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs and the effect that any legislation, interpretation, or change may have on us.

CONVERSION LEGISLATION. Many states, including some where we have hospitals and others where we may in the future acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, the attorneys general have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative efforts primarily focus on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the not-for-profit seller. While these review and, in some instances, approval processes can add additional time to the closing of a hospital acquisition, we have not had any significant difficulties or delays in completing the process. There can be no assurance, however, that future actions on the state level will not seriously delay or even prevent our ability to acquire hospitals. If these activities are widespread, they could have a negative impact on our ability to acquire additional hospitals. See "--Our Business Strategy."

CERTIFICATES OF NEED. The construction of new facilities, the acquisition of existing facilities and the addition of new services at our facilities may be subject to state laws that require prior approval by state regulatory agencies. These certificate of need laws generally require that a state agency determine the public need and give approval prior to the construction or acquisition of facilities or the addition of new services. We operate hospitals in 11 states that have adopted certificate of need laws. If we fail to obtain necessary state approval, we will not be able to expand our facilities, complete acquisitions or add new services in these states. Violation of these state laws may result in the imposition of civil sanctions or the revocation of a hospital's licenses.

PAYMENT

MEDICARE. Under the Medicare program, we are paid for inpatient and outpatient services performed by our hospitals.

Payments for inpatient acute services are generally made pursuant to a prospective payment system, commonly known as "PPS." Under a PPS, our hospitals are paid a prospectively determined amount for each hospital discharge based on the patient's diagnosis. Specifically, each discharge is assigned to a diagnosis-related group, commonly known as a "DRG," based upon the patient's condition and treatment during the relevant inpatient stay. Each DRG is assigned a payment rate that is prospectively set using national average costs per case for treating a patient for a particular diagnosis. DRG payments do not consider the actual costs incurred by a hospital in providing a particular inpatient service. However, DRG payments are adjusted by a predetermined geographic adjustment factor assigned to the geographic area in which the hospital is located. While a hospital generally does not receive payment in addition to a DRG payment, hospitals may qualify for an "outlier" payment when the relevant patient's treatment costs are extraordinarily high and exceed a specified threshold.

The DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The update factor is determined, in part, by the projected increase in the cost of goods and services that are purchased by hospitals. For several years the annual update factor has been lower than the projected increases in the costs of goods and services purchased by hospitals. DRG rate increases were 1.1% for federal fiscal year 1995, 1.5% for federal fiscal year 1996, and 2.0% for federal fiscal year 1997. For federal fiscal year 1998, there was no increase. The DRG rate was increased by the projected increase in the cost of goods and services minus 1.9% for federal fiscal year 1999 and 1.8% for federal fiscal year 2000. For both federal fiscal years 2001 and 2002, the DRG rate will be increased by the projected increase in the cost of goods and services minus 1.1%. Future legislation may decrease the rate of increase for DRG payments, but we are not able to predict the amount of the reduction or the effect that the reduction will have on us.

Outpatient services have traditionally been paid at the lower of customary charges or on a reasonable cost basis. The Balanced Budget Act established a PPS for outpatient hospital services that is scheduled to commence on July 1, 2000. The Balanced Budget Refinement Act of 1999 eliminated the anticipated average reduction of 5.7% for various Medicare outpatient business under the Balanced Budget Act of 1997. Under the Balanced Budget Refinement Act of 1999, non-urban hospitals with 100 beds or less are held harmless under Medicare outpatient PPS through December 31, 2003. Thirty-three of our hospitals qualify for this relief. Losses under Medicare outpatient PPS of non-urban hospitals with greater than 100 beds and urban hospitals will be mitigated through a corridor reimbursement approach, where a percentage of losses will be reimbursed through December 31, 2003. Substantially all of our remaining hospitals qualify for relief under this provision.

Skilled nursing facilities have historically been paid by Medicare on the basis of actual costs, subject to limitations. The Balanced Budget Act established a PPS for Medicare skilled nursing facilities. The new PPS commenced in July 1998, and is being implemented progressively over a three year term. We have experienced reductions in payments for our skilled nursing services. However, the

Balanced Budget Refinement Act of 1999 has established adjustments to the PPS payments made to skilled nursing facilities which are scheduled to be implemented on October 1, 2000.

The Balanced Budget Act also requires the Department of Health and Human Services to establish a PPS for home health services. The Balanced Budget Act of 1997 put in place the interim payment system, commonly known as "IPS," until the home health PPS could be implemented. The home health PPS is currently scheduled to replace IPS on October 1, 2000. We have experienced reductions in payments for our home health services and a decline in home health visits due to a reduction in benefits by reason of the Balanced Budget Act.

MEDICAID. Most state Medicaid payments are made under a PPS or under programs which negotiate payment levels with individual hospitals. Medicaid is currently funded jointly by state and federal governments. The federal government and many states are currently considering significantly reducing Medicaid funding, while at the same time expanding Medicaid benefits. This could adversely affect future levels of Medicaid payments received by our hospitals.

ANNUAL COST REPORTS. Hospitals participating in the Medicare and some Medicaid programs, whether paid on a reasonable cost basis or under a PPS, are required to meet certain financial reporting requirements. Federal and, where applicable, state regulations require submission of annual cost reports identifying medical costs and expenses associated with the services provided by each hospital to Medicare beneficiaries and Medicaid recipients.

Annual cost reports required under the Medicare and some Medicaid programs are subject to routine governmental audits. These audits may result in adjustments to the amounts ultimately determined to be due to us under these reimbursement programs. Finalization of these audits often takes several years. Providers can appeal any final determination made in connection with an audit.

COMMERCIAL INSURANCE. Our hospitals provide services to individuals covered by private healthcare insurance. Private insurance carriers pay our hospitals or in some cases reimburse their policyholders based upon the hospital's established charges and the coverage provided in the insurance policy. Commercial insurers are trying to limit the costs of hospital services by negotiating discounts, including PPS, which would reduce payments by commercial insurers to our hospitals. Reductions in payments for services provided by our hospitals to individuals covered by commercial insurers could adversely affect us.

COMPETITION

The hospital industry is highly competitive. In addition to the competition we face for acquisitions and physicians, we must also compete with other hospitals and healthcare providers for patients. The competition among hospitals and other healthcare providers for patients has intensified in recent years. Our hospitals are located in non-urban service areas. Most of our hospitals face no direct competition because there are no other hospitals in their primary service areas. However, these hospitals do face competition from hospitals outside of their primary service area, including hospitals in urban areas that provide more complex services. These facilities are generally located in excess of 25 miles from our facilities. Patients in our primary service areas may travel to these other hospitals for a variety of reasons, including the need for services we do not offer or physician referrals. Patients who are required to seek services from these other hospitals may subsequently shift their preferences to those hospitals for services we do provide.

Some of our hospitals operate in primary service areas where they compete with one other hospital. One of our hospitals competes with more than one other hospital in its primary service area. Some of these competing hospitals use equipment and services more specialized than those available at our hospitals. In addition, some of the hospitals that compete with us are owned by tax-supported governmental agencies or not-for-profit entities supported by endowments and charitable contributions. These hospitals can make capital expenditures without paying sales, property and income taxes. We also

face competition from other specialized care providers, including outpatient surgery, orthopedic, oncology, and diagnostic centers.

The number and quality of the physicians on a hospital's staff is an important factor in a hospital's competitive advantage. Physicians decide whether a patient is admitted to the hospital and the procedures to be performed. Admitting physicians may be on the medical staffs of other hospitals in addition to those of our hospitals. We attempt to attract our physicians' patients to our hospitals by offering quality services and facilities, convenient locations, and state-of-the-art equipment.

COMPLIANCE PROGRAM

OUR COMPLIANCE PROGRAM. In early 1997, under our new management and leadership, we voluntarily adopted a company-wide compliance program. The program included the appointment of a compliance officer and committee, adoption of an ethics and business conduct code, employee education and training, implementation of an internal system for reporting concerns, auditing and monitoring programs, and a means for enforcing the program's policies.

We take an operations team approach to compliance and utilize corporate experts for program design efforts and facility leaders for employee-level implementation. Compliance is another area that demonstrates our utilization of standardization and centralization techniques and initiatives which yield efficiencies and consistency throughout our facilities. We recognize that our compliance with applicable laws and regulations depends on individual employee actions as well as company operations. Our approach focuses on integrating compliance responsibilities with operational function. This approach is intended to reinforce our company-wide commitment to operate strictly in accordance with the laws and regulations that govern our business.

Since its initial adoption, the compliance program continues to be expanded and developed to meet the industry's expectations and our needs. Specific written policies, procedures, training and educational materials and programs, as well as auditing and monitoring activities have been prepared and implemented to address the functional and operational aspects of our business. Included within these functional areas are materials and activities for business sub-units, including laboratory, radiology, pharmacy, emergency, surgery, observation, home health, skilled nursing, and clinics. Specific areas identified through regulatory interpretation and enforcement activities have also been addressed in our program. Claims preparation and submission, including coding, billing, and cost reports, comprise the bulk of these areas. Financial arrangements with physicians and other referral sources, including anti-kickback and Stark laws, emergency department treatment and transfer requirements, and other patient disposition issues are also the focus of policy and training, standardized documentation requirements, and review and audit.

INPATIENT CODING COMPLIANCE ISSUE. In August 1997, during a routine internal audit at one of our facilities, we discovered inaccuracies in the DRG coding for some of our inpatient medical records. At that time, this was the primary auditing activity for our compliance program. These inaccuracies involved inpatient coding practices that had been put in place prior to the time we acquired our operating company in 1996.

Because of the concerns raised by the internal audit, we performed an internal review of historical inpatient coding practices. At the completion of this review in December 1997, we voluntarily disclosed the coding problems to the Office of Inspector General of the U.S. Department of Health and Human Services. After discussions with the Inspector General, we agreed to have an independent consultant audit the coding for eight specific DRGs. This audit ultimately involved a review by the consultant of approximately 1,500 patient files. The audit procedures we followed generated a statistically valid estimate of the dollar amounts related to coding errors for these DRGs at 36 of our hospitals for the period 1993 to 1997.

The results of this audit were reviewed by the Inspector General and the Department of Justice, who also conducted their own investigation. We cooperated fully with their investigation. The government agencies advised us of potential liability under various legal theories, including the False Claims Act. Under the False Claims Act, we could be liable for as much as treble damages and penalties of between \$5,000 and \$10,000 per false claim submitted to Medicare and Medicaid.

We have executed a settlement agreement with these federal government agencies and the applicable state Medicaid programs. Pursuant to the settlement agreement, we will pay approximately \$31 million on May 22, 2000 and will be released from all civil claims relating to the coding of the eight specific DRGs for the hospitals and time periods covered in the audit. During 1998 and 1999, we established a liability in our financial statements for this amount. We have also agreed with the Inspector General to continue our existing voluntary compliance program under a corporate compliance agreement and to adopt various additional compliance measures for a period of three years. These additional compliance measures include making various reports to the federal government and having our actions pursuant to the compliance agreement reviewed annually by a third party.

The compliance measures and reporting and auditing requirements contained in the compliance agreement include:

- continuing the duties and activities of our corporate compliance officer, corporate compliance work group, and facility compliance chairs and committees;
- maintaining our written ethics and conduct policy, which sets out our commitment to full compliance with all statutes, regulations, and guidelines applicable to federal healthcare programs;
- maintaining our written policies and procedures addressing the operation of our compliance program, including proper coding for inpatient hospital stays;
- continuing our general training on the ethics and conduct policy and adding training about our compliance program and the compliance agreement;
- continuing our specific training for the appropriate personnel on billing and coding issues;
- continuing independent third party periodic audits of our facilities' inpatient DRG coding;
- having an independent third party perform an annual review of our compliance with the compliance agreement;
- continuing our confidential disclosure program and "ethics hotline" to enable employees or others to disclose issues or questions regarding possible inappropriate policies or behavior;
- enhancing our screening program to ensure that we do not hire or engage employees or contractors who are ineligible persons for federal healthcare programs;
- reporting any material deficiency which resulted in an overpayment to us by a federal healthcare program; and
- submitting annual reports to the Inspector General which describe in detail the operations of our corporate compliance program for the past year.

Our substantial adherence to the terms and conditions of the compliance agreement will constitute an element of our eligibility to participate in the federal healthcare programs. Consequently, material, uncorrected violations of the compliance agreement could lead to suspension or disbarment from these federal programs. In addition, we will be subject to possible civil penalties for a failure to substantially comply with the terms of the compliance agreement, including stipulated penalties ranging between \$1,000 to \$2,500 per day. We will also be subject to a stipulated penalty of \$25,000 per day, following notice and cure periods, for any deliberate and/or flagrant breach of the material provisions of the compliance agreement.

EMPLOYEES

At December 31, 1999, we employed 8,643 full time employees and 4,475 part-time employees. Of these employees, 1,056 are union members. We believe that our labor relations are good.

PROFESSIONAL LIABILITY

As part of our business of owning and operating hospitals, we are subject to legal actions alleging liability on our part. To cover claims arising out of the operations of hospitals, we generally maintain professional malpractice liability insurance and general liability insurance on a claims made basis in amounts and with deductibles that we believe to be sufficient for our operations. We also maintain umbrella liability coverage covering claims which, due to their nature or amount, are not covered by our insurance policies. We cannot assure you that professional liability insurance will cover all claims against us or continue to be available at reasonable costs for us to maintain adequate levels of insurance.

LEGAL PROCEEDINGS

We have executed a settlement agreement with the Inspector General, the Department of Justice, and the applicable state Medicaid programs pursuant to which we will pay approximately \$31 million on May 22, 2000 in exchange for a release of civil claims associated with possible inaccurate inpatient coding for the period 1993 to 1997. For a description of the terms of the settlement agreement as well as the events giving rise to the settlement agreement, see "--Compliance Program" and "Risk Factors--If we fail to comply with the material terms of our corporate compliance agreement, we could be excluded from government healthcare programs."

In May 1999, we were served with a complaint in U.S. EX REL. BLEDSOE V. COMMUNITY HEALTH SYSTEMS, INC., Case # 1-98-CV-0435-MHS (N.D. Ga.). This qui tam action seeks treble damages and penalties under the False Claims Act against us. The Department of Justice did not intervene in this action. The allegations in the proposed complaint are extremely general, but appear to involve Medicare billing at our White County Community Hospital in Sparta, Tennessee. No discovery has occurred in this action. Based on our review of the complaint, we do not believe that this lawsuit is meritorious and we intend to vigorously defend ourselves against this action. However, because of the uncertain nature of litigation, we cannot predict the outcome of this matter.

The Department of Justice also has notified us of the existence of U.S. EX REL. SMITH V. COMMUNITY HEALTH SYSTEMS, INC., filed in September 1999 in the federal court in Nashville, Tennessee. This qui tam lawsuit was brought against us by a former employee of our Lakeway Regional Hospital. The complaint alleges violations of the False Claims Act in connection with alleged inflated costs caused by incorrect allocation of employee salaries to Lakeway Regional Hospital's rehabilitation unit, as well as improper Medicare reimbursement for patients readmitted to that hospital from the rehabilitation unit. Our initial review indicates that the allegations relating to the reimbursement for the readmitted patients lack factual support. In addition, our initial review indicates that any inaccuracies in salary allocations to the rehabilitation unit's cost reports were relatively minimal in amount. This litigation is at a very preliminary stage and we have not been served with the complaint. The Department of Justice has informed us that it has not made a decision to intervene. We intend to assert a number of factual and legal defenses to these allegations.

The Department of Justice also has notified us of the existence of U.S. EX REL. KOWATLI V. RUSSELL COUNTY MEDICAL CENTER, ET AL., filed in January 1999 in the federal court in Abingdon, Virginia. This lawsuit was brought by a physician who formerly had privileges at Russell County Medical Center. The complaint is filed under the False Claims Act against various individual doctors as well as Russell County Medical Center and us. The complaint alleges that the defendants engaged in unnecessary and unsafe medical procedures, tests and hospitalizations. The physician had previously filed two antitrust actions against the doctors and hospital which were both found to be without merit and dismissed by

the courts. Because we have only recently been notified of this complaint, we have not done any investigation into the substance of these specific allegations. We have not been served with the complaint, and the Department of Justice has not made a decision to intervene.

During the past year, we have received federal grand jury subpoenas from the U.S. Attorney's Office for the Eastern District of Arkansas seeking documents from our Harris Hospital facility relating to its mammography department. Investigators from the Food and Drug Administration and the State of Arkansas also have sought documents and interviewed employees relating to the activities of the Harris Hospital mammography department. We have cooperated with the government's investigation and made documents and individuals available. The U.S. Attorney's Office has not disclosed to us the specific nature of its investigation. We are unable to determine if the government intends to go forward on this matter against us and, if so, whether it will proceed civilly or criminally.

We have also received various inquiries or subpoenas from state regulators, fiscal intermediaries, and the Department of Justice regarding various Medicare and Medicaid issues. In addition, we are subject to other claims and lawsuits arising in the ordinary course of our business. Plaintiffs in these lawsuits generally request punitive or other damages that by state law may not be able to be covered by insurance. We are not aware of any pending or threatened litigation which we believe would have a material adverse impact on us.

ENVIRONMENTAL MATTERS

We are subject to various federal, state, and local laws and regulations governing the use, discharge, and disposal of hazardous materials, including medical waste products. Compliance with these laws and regulations is not expected to have a material adverse effect on us. It is possible, however, that environmental issues may arise in the future which we cannot now predict.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following sets forth information regarding our executive officers and directors as of April 30, 2000. Unless otherwise indicated, each of our executive officers holds an identical position with CHS/ Community Health Systems, Inc., our wholly owned subsidiary:

NAME	AGE	POSITION
Wayne T. Smith.....	54	President and Chief Executive Officer and Director (Class III)
W. Larry Cash.....	51	Executive Vice President and Chief Financial Officer
David L. Miller.....	51	Group Vice President
Gary D. Newsome.....	42	Group Vice President
Michael T. Portacci.....	41	Group Vice President
John A. Fromhold.....	46	Group Vice President
Martin G. Schweinhart.....	45	Vice President Operations
T. Mark Buford.....	48	Vice President and Corporate Controller
Rachel A. Seifert.....	41	Vice President, Secretary and General Counsel
Sheila P. Burke.....	49	Director (Class III)
Robert J. Dole.....	76	Director (Class I)
J. Anthony Forstmann.....	62	Director (Class I)
Nicholas C. Forstmann.....	53	Director (Class II)
Theodore J. Forstmann.....	60	Director (Class III)
Dale F. Frey.....	67	Director (Class II)
Sandra J. Horbach.....	39	Director (Class II)
Thomas H. Lister.....	36	Director (Class III)
Michael A. Miles.....	60	Chairman of the Board (Class II)
Samuel A. Nunn.....	61	Director (Class I)

WAYNE T. SMITH is the President and Chief Executive Officer. Mr. Smith joined us in January 1997 as President. In April 1997 we also named him our Chief Executive Officer and a member of the Board of Directors. Prior to joining us, Mr. Smith spent 23 years at Humana Inc., most recently as President and Chief Operating Officer, and as a director, from 1993 to mid-1996. He is also a director of Almost Family.

W. LARRY CASH is the Executive Vice President and Chief Financial Officer. Mr. Cash joined us in September 1997 as Executive Vice President and Chief Financial Officer. Prior to joining Community Health Systems, he served as Vice President and Group Chief Financial Officer of Columbia/HCA Healthcare Corporation from September 1996 to August 1997. Prior to Columbia/HCA, Mr. Cash spent 23 years at Humana Inc., most recently as Senior Vice President of Finance and Operations from 1993 to 1996.

DAVID L. MILLER is a Group Vice President. Mr. Miller joined us in November 1997 as a Group Vice President, managing hospitals in Alabama, Florida, North Carolina, South Carolina, and Virginia. Prior to joining us, he served as a Divisional Vice President for Health Management Associates, Inc. from January 1996 to October 1997. From July 1994 to December 1995, Mr. Miller was the Chief Executive Officer of the Lake Norman Regional Medical Center in Mooresville, North Carolina, which is owned by Health Management Associates, Inc.

GARY D. NEWSOME is a Group Vice President. Mr. Newsome joined us in February 1998 as Group Vice President, managing hospitals in Arkansas, Kentucky, Louisiana, Mississippi, Wyoming, Pennsylvania, Tennessee, and Utah. Prior to joining us, he was a Divisional Vice President of Health Management Associates, Inc. in Midwest City, Oklahoma from January 1996 to February 1998. From January 1995 to January 1996, Mr. Newsome served as Assistant Vice President/Operations and Group

Operations Vice President responsible for facilities of Health Management Associates, Inc. in Oklahoma, Arkansas, Kentucky, and West Virginia.

MICHAEL T. PORTACCI is a Group Vice President. Mr. Portacci joined us in 1987 as a hospital administrator and became a Group Director in 1991. In 1994, he became Group Vice President, managing facilities in Arizona, California, Illinois, Missouri, New Mexico, and Texas.

JOHN A. FROMHOLD is a Group Vice President. Mr. Fromhold joined us in June 1998 as a Group Vice President, managing hospitals in Florida, Georgia, and Texas. Prior to joining us, he served as Chief Executive Officer of Columbia Medical Center of Arlington, Texas from 1995 to 1998.

MARTIN G. SCHWEINHART is Vice President Operations. Mr. Schweinhart joined us in June 1997 and has served as the Vice President Operations. From 1994 to 1997 he served as Chief Financial Officer of the Denver and Kentucky divisional markets of Columbia/HCA Healthcare Corporation. Prior to that time he spent 18 years with Humana Inc. and Columbia/HCA in various management capacities.

T. MARK BUFORD is Vice President and Corporate Controller. Mr. Buford has served as our Corporate Controller since 1986 and as Vice President since 1988.

RACHEL A. SEIFERT is Vice President, Secretary and General Counsel. Ms. Seifert joined us in January 1998. From 1992 to 1997, she was Associate General Counsel of Columbia/HCA Healthcare Corporation and became Vice President-Legal Operations in 1994. Prior to joining Columbia/HCA in 1992, she was in private practice in Dallas, Texas.

SHEILA P. BURKE has been a director since 1997. She has been Executive Dean of the John F. Kennedy School of Government, Harvard University since 1996. Previously in 1996, Ms. Burke was senior advisor to the Dole for President Campaign. From 1986 until June 1996, Ms. Burke served as the chief of staff to former Senator Robert Dole and, in that capacity, was actively involved in writing some of the healthcare legislation in effect today. She is a director of WellPoint Health Networks Inc. and The Chubb Corporation.

ROBERT J. DOLE has been a director since 1997. He was a U.S. Senator from 1968 to 1996, during which time he served as Senate majority leader, minority leader and chairman of the Senate Finance Committee. Mr. Dole was also a U.S. Representative from 1960 to 1968. He has been a special counsel with Verner, Lipfert, Bernhard, McPherson and Hand since 1997. He is also a director of TB Woods Corp.

J. ANTHONY FORSTMANN has been a director since 1996. He has been a Managing Director of J.A. Forstmann & Co., a merchant banking firm, since October 1987. Mr. Forstmann was President of The National Registry Inc. from October 1991 to August 1993 and from September 1994 to March 1995 and Chief Executive Officer from October 1991 to August 1993 and from September 1994 to December 1995. In 1968, he co-founded Forstmann-Leff Associates, an institutional money management firm with \$6 billion in assets. He is also a special limited partner of one of the Forstmann Little partnerships.

NICHOLAS C. FORSTMANN has been a director since 1996. He has been a general partner of FLC XXIX Partnership, L.P. since he co-founded Forstmann Little & Co. in 1978. He is also a director of The Yankee Candle Company, Inc. and NEXTLINK Communications, Inc.

THEODORE J. FORSTMANN has been a director since 1996. He has been a general partner of FLC XXIX Partnership, L.P. since he co-founded Forstmann Little & Co. in 1978. He is also a director of The Yankee Candle Company, Inc. and McLeodUSA Incorporated.

DALE F. FREY has been a director since 1997. Mr. Frey currently is retired. From 1984 until 1997, Mr. Frey was the Chairman of the Board and President of General Electric Investment Corp. From 1980 until 1997, he was also Vice President of General Electric Company. Mr. Frey is also a director of Praxair, Inc., Roadway Express Inc., and Aftermarket Technology Corp.

SANDRA J. HORBACH has been a director since 1996. She has been a general partner of FLC XXIX Partnership, L.P. since 1993. She is also a director of The Yankee Candle Company, Inc. and NEXTLINK Communications, Inc.

THOMAS H. LISTER has been a director since April 2000. He has been a general partner of FLC XXX Partnership, L.P. since 1997. He joined Forstmann Little & Co. in 1993 as an associate.

MICHAEL A. MILES has been a director since 1997 and has served as Chairman of the Board since March 1998. Mr. Miles currently is retired. Mr. Miles served as Chairman and Chief Executive Officer of Philip Morris from 1991 to 1994. He is also a director of Dell Computer Corp., Morgan Stanley Dean Witter, Sears Roebuck and Co., Time Warner Inc., Allstate Inc., and the Interpublic Group of Companies. He is a special limited partner of one of the Forstmann Little partnerships.

SAMUEL A. NUNN has been a director since 1997. Mr. Nunn has been a partner at the law firm of King & Spalding since 1997. Prior to joining King & Spalding, he was a United States Senator from 1972 to 1997. He is also a director of The Coca Cola Company, Dell Computer Corporation, General Electric Company, Internet Security Systems Group, Inc., National Service Industries, Inc., Scientific-Atlanta, Inc., Texaco, Inc., and Total System Services, Inc. He has continued his service in the public policy arena as Chairman of the Board of the Center for Strategic and International Studies.

THE BOARD OF DIRECTORS

Our certificate of incorporation will provide for a classified board of directors consisting of three classes. Each class will consist, as nearly as possible, of one-third of the total number of directors constituting the entire board. The term of the initial Class I directors will terminate on the date of the 2001 annual meeting of stockholders; the term of the initial Class II directors will terminate on the date of the 2002 annual meeting of stockholders; and the term of the initial Class III directors will terminate on the date of the 2003 annual meeting of stockholders. Beginning in 2001, at each annual meeting of stockholders, successors to the class of directors whose term expires at that annual meeting will be elected for a three-year term and until their respective successors are elected and qualified. A director may only be removed with cause by the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote in the election of directors. The Forstmann Little partnerships have a contractual right to elect two directors until they no longer own any shares of our common stock.

Directors who are neither our executive officers nor general partners in the Forstmann Little partnerships have been granted options to purchase common stock in connection with their election to our board of directors. Directors do not receive any fees for serving on our board, but are reimbursed for their out-of-pocket expenses arising from attendance at meetings of the board and committees. See "--Outside Director Stock Options."

The board has three committees: Executive, Compensation, and Audit and Compliance. The Executive Committee consists of Theodore J. Forstmann, Sandra J. Horbach, Michael A. Miles, and Wayne T. Smith. The Compensation Committee consists of Michael A. Miles, J. Anthony Forstmann, and Nicholas C. Forstmann. The Audit and Compliance Committee consists of Dale F. Frey, Michael A. Miles, and Sheila P. Burke.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the Compensation Committee of our board of directors are: Michael A. Miles, J. Anthony Forstmann, and Nicholas C. Forstmann. During 1999, the Compensation Committee consisted of Theodore J. Forstmann and Sandra J. Horbach. Sandra J. Horbach formerly served as one of our officers but received no compensation for her services. None of the other members of the current or former Compensation Committees are current or former executive officers or employees of us or any of our subsidiaries. Each of Theodore J. Forstmann, Nicholas C. Forstmann, and Sandra J. Horbach are general partners in partnerships affiliated with the Forstmann Little partnerships. See "--Relationships and Transactions between Community Health Systems and its Officers, Directors and

5% Beneficial Owners and their Family Members" for a description of the 1996 acquisition of our principal subsidiary by the Forstmann Little partnerships and members of our management.

EXECUTIVE COMPENSATION

The following table sets forth certain summary information with respect to compensation for 1999 paid by us for services to our Chief Executive Officer and our four other most highly paid executive officers who were serving as executive officers at December 31, 1999.

SUMMARY COMPENSATION TABLE

NAME AND POSITION	ANNUAL COMPENSATION			ALL OTHER COMPENSATION (\$)
	SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (a)	
Wayne T. Smith President and Chief Executive Officer	475,002	427,500	--	11,947 (b)
W. Larry Cash Executive Vice President and Chief Financial Officer	375,000	318,750	--	10,764 (c)
Michael T. Portacci Group Vice President	216,000	145,800	--	5,735 (d)
David L. Miller Group Vice President	235,000	137,475	--	6,635 (e)
Gary D. Newsome Group Vice President	216,000	163,080	--	32,352 (f)

(a) The amount of other annual compensation is not required to be reported since the aggregate amount of perquisites and other personal benefits was less than \$50,000 or 10% of the total annual salary and bonus reported for each named executive officer.

(b) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of \$4,822, employer matching contributions to the 401(k) plan of \$2,400 and matching contributions to the deferred compensation plan of \$4,725.

(c) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of \$5,139, employer matching contributions to the 401(k) plan of \$2,400, and employer matching contributions to the deferred compensation plan of \$3,225.

(d) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of \$3,335 and employer matching contributions to the 401(k) plan of \$2,400.

(e) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan of \$4,235 and employer matching contributions to the 401(k) plan of \$2,400.

(f) Amount consists of additional long-term disability premiums and payments made to the Supplemental Survivors Accumulation Plan totaling \$3,502, relocation expense reimbursement of \$26,758, and employer matching contributions to the 401(k) plan of \$2,092.

OPTION GRANTS IN LAST FISCAL YEAR

There were no stock options granted to any of our executive officers or directors during the year ended December 31, 1999.

AGGREGATED OPTION VALUES AS OF DECEMBER 31, 1999

The executive officers named in the summary compensation table did not exercise any stock options during the year ended December 31, 1999. The following table sets forth the stock option values as of December 31, 1999 for these persons.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END \$(a)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Wayne T. Smith.....	--	--	\$ --	\$ --
Larry W. Cash.....	--	--	--	--
David L. Miller.....	3,562	5,342	56,992	85,472
Gary D. Newsome.....	3,562	5,342	56,992	85,472
Michael T. Portacci.....	5,342	3,562	85,472	56,992

(a) Sets forth values for options that represent the positive spread between the respective exercise prices of outstanding stock options and the value of the common stock as of December 31, 1999, based on the mid-point of the range of initial public offering prices set forth on the cover page of this prospectus.

COMMUNITY HEALTH SYSTEMS STOCK OPTION PLAN

The Community Health Systems Employee Stock Option Plan provides for the granting of options to purchase shares of common stock of our company to any employee of our company or our subsidiaries. These options are not intended to qualify as incentive stock options. The plan is currently administered by the Compensation Committee of our Board of Directors. As of April 14, 2000, options to purchase 548,462 shares of common stock have been issued. No additional grants will be made under this plan.

STOCK OPTION AGREEMENTS. Options are granted pursuant to stock option agreements. To exercise an option, the optionee must pay for the shares in full and execute the stockholder's agreement described below. One-fifth of the options generally vest and become exercisable on each of the first, second, third, fourth and fifth anniversaries of the grant date. Unvested options expire on the date of the optionee's termination of employment and vested options expire after the termination of employment as described below.

Each option expires, unless earlier terminated, on the earliest of:

- the tenth anniversary of the date of grant; and
- the exercise in full of the option.

If an optionee's employment is terminated for any reason, the options will terminate to the extent they were not exercisable at the time of termination of employment. The optionee has a 60-day period from the date of our notification to exercise the vested portion of the option. These options are generally exercisable only by an optionee during the optionee's lifetime and are not transferable.

The stock option agreements provide that we will notify the optionee prior to a total sale or a partial sale. A total sale includes:

- the merger or consolidation of us into another corporation, other than a merger or consolidation in which we are the surviving corporation and which does not result in a capital reorganization, reclassification or other change in the then outstanding common stock;
- the liquidation of us;
- the sale to a third party of all or substantially all of our assets; or
- the sale to a third party of common stock, other than through a public offering;

but only if the Forstmann Little partnerships cease to own any shares of the voting stock of our Company.

A partial sale means a sale by the Forstmann Little partnerships of all or a portion of their shares of common stock to a third party, including through a public offering, other than a total sale. This offering constitutes neither a total sale nor a partial sale.

The optionee may exercise his or her options only for purposes of participating in the partial sale, whether or not the options were otherwise exercisable, with respect to the excess, if any, of

- the number of shares with respect to which the optionee would be entitled to participate in the partial sale under the stockholder's agreement which permits proportional participation with the Forstmann Little partnerships in a public offering or sale to a third party, as described below, over
- the number of shares previously issued upon exercise of such options and not previously disposed of in a partial sale.

Upon receipt of a notice of a total sale, the optionee may exercise all or part of his or her options, whether or not such options were otherwise exercisable, within five days of receiving such notice, or a shorter time as determined by the committee.

In connection with a total sale involving the merger, consolidation or liquidation of us or the sale of common stock by the Forstmann Little partnerships, we may redeem the unexercised portion of the options, for a price equal to the price received per share of common stock in the total sale, less the exercise price of the options, in lieu of permitting the optionee to exercise the options. Any unexercised portion of an option will terminate upon the completion of a total sale, unless we provide for its continuation.

In the event a total sale or partial sale is not completed, any option that the optionee had exercised in connection with the total sale or partial sale will be deemed not to have been exercised and will be exercisable after the total sale or partial sale only to the extent it would have been exercisable if notice of the total sale or partial sale had not been given to the optionee. The optionee has no independent right to require us to register the shares of common stock underlying the options under the Securities Act.

The stock option agreements permit us to terminate all of an optionee's options if the optionee engages in prohibited or competitive activities, including:

- disclosing confidential information about us;
- soliciting any of our employees within eighteen months of being terminated;
- publishing any statement critical of us;

- engaging in any competitive activities; or
- being convicted of a crime against us.

The number and class of shares underlying, and the terms of, outstanding options may be adjusted in certain events, such as a merger, consolidation, stock split or stock dividend.

STOCKHOLDER'S AGREEMENT. Upon exercise of an option under the plan, an optionee is required to enter into a stockholder's agreement with us in the form then in effect. The stockholder's agreement governs the optionee's rights and obligations as a stockholder. The stockholder's agreement provides that, generally, the shares issued upon exercise of the options may not be sold, assigned or otherwise transferred. The description below summarizes the terms of the form of the stockholder's agreement currently in effect.

If one or more partial sales result in the Forstmann Little partnerships owning, in the aggregate, less than 25% of our then outstanding voting stock, the stockholder is entitled to sell, transfer or hold his or her shares of common stock free of the restrictions and rights contained in the stockholder's agreement.

The stockholder's agreement provides that the stockholder may participate proportionately in any sale by the Forstmann Little partnerships of all or a portion of their shares of common stock to any person who is not a partner or affiliate of the Forstmann Little partnerships. In addition, the stockholder shall be entitled to (and may be required to) participate proportionately in a public offering of shares of common stock by the Forstmann Little partnerships, by selling the same percentage of the stockholder's shares that the Forstmann Little partnerships are selling of their shares. The sale of shares of common stock in such a transaction must be for the same price and otherwise on the same terms and conditions as the sale by the Forstmann Little partnerships. If the Forstmann Little partnerships sell or exchange all or a portion of their common stock in a bona fide arm's-length transaction, the Forstmann Little partnerships may require the stockholder to sell a proportionate amount of his or her shares for the same price and on the same terms and conditions as the sale of common stock by the Forstmann Little partnerships and, if stockholder approval of the transaction is required, to vote his or her shares in favor of the sale or exchange.

The stockholder's agreement permits us to repurchase all the shares of common stock then held by a stockholder if the stockholder engages in any prohibited activity or competitive activity or is convicted of a crime against us.

OUTSIDE DIRECTOR STOCK OPTIONS

Six directors, Messrs. Dole, J. Anthony Forstmann, Frey, Miles, and Nunn and Ms. Burke, have options which were granted pursuant to individual stock option agreements. Each of the director optionees other than Mr. Miles has options to purchase 29,679 shares of common stock at \$9.04 per share. Mr. Miles has options to purchase 41,550 shares of common stock at \$9.04 per share. These options are not intended to qualify as incentive stock options and were not issued pursuant to the plan.

One-third of the options generally become exercisable on each of the first, second and third anniversaries of the date of the grant. Each option expires on the earliest of:

- the tenth anniversary of the date of grant;
- the date the director optionee ceases to serve as one of our directors;
and
- the exercise in full of the option.

The director optionees may not sell or otherwise transfer their options.

The director option agreements provide that we will notify the director optionees prior to a total sale or a partial sale. Upon receipt of a notice of a partial sale, a director optionee may exercise his or her options only for purposes of participating in the partial sale, whether or not the options were otherwise exercisable, with respect to the excess, if any, of:

- the number of shares with respect to which the director optionee would be entitled to participate in the partial sale under the director stockholder's agreements described below, over
- the number of shares previously issued upon exercise of the options and not previously disposed of in a partial sale.

Upon receipt of a notice of a total sale, a director optionee may exercise all or part of his options, whether or not the options were otherwise exercisable.

In connection with a total sale, we may redeem the unexercised portion of the director optionee's options. Any unexercised portion of a director optionee's options will terminate upon the completion of a total sale, unless we provide for continuation of the options.

In the event a total sale or partial sale is not completed, any option which a director optionee had exercised in connection with the sale will be exercisable after the sale only to the extent it would have been exercisable if notice of the sale had not been given to the director optionee. The offering constitutes neither a total sale nor a partial sale.

The director option agreements provide that, if the Forstmann Little partnerships sell shares of common stock in a bona fide arm's-length transaction, at our election, a director optionee may be required to:

- proportionately exercise the director optionee's options and to sell all of the shares of common stock purchased under the exercise in the same transaction and on the same terms as the shares sold by the Forstmann Little partnerships, or if unwilling to do so; or
- forfeit the portion of the option required to be exercised.

The director optionees have no independent right to require us to register the shares of common stock underlying the options under the Securities Act.

The number and class of shares underlying and the terms of outstanding options may be adjusted in certain events, such as a merger, consolidation, stock split or stock dividend.

DIRECTOR STOCKHOLDER'S AGREEMENTS. Upon exercise of a director option, a director optionee is required to enter into a director stockholder's agreement with us in the form then in effect. The form of director stockholder's agreement currently in effect is substantially the same as the form of employee stockholder's agreement currently in effect.

STOCKHOLDER'S AGREEMENTS

Currently, 23 members of our management and other employees or former employees own an aggregate of 2,275,312 shares of our common stock, excluding shares issuable upon exercise of options. These shares were purchased pursuant to the terms of stockholder agreements. The stockholder agreements contain transfer provisions substantially similar to those in the form of stockholder's agreements that the employee and director optionees must execute upon exercise of options.

Upon termination of employment, we have the right, at our option, to purchase all of the unvested shares of common stock held by the stockholder. The stock vests at a rate of 20% per year, beginning after one year. The stockholders have no independent right to require us to register their shares under the Securities Act.

THE COMMUNITY HEALTH SYSTEMS 2000 STOCK OPTION AND AWARD PLAN

Our Board of Directors adopted the 2000 Stock Option and Award Plan in April, 2000, and the stockholders approved it in April, 2000. The stock plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards, and share awards. Persons are eligible to receive grants under the stock plan include our directors, officers, employees, and consultants. The stock plan is designed to comply with the requirements for "performance-based compensation" under Section 162(m) of the Internal Revenue Code, and the conditions for exemption from the short-swing profit recovery rules under Rule 16b-3 under the Securities Exchange Act.

The stock plan is administered by a committee that consists of at least two nonemployee outside board members. The Compensation Committee of the board currently serves as the committee. Generally, the committee has the right to grant options and other awards to eligible individuals and to determine the terms and conditions of options and awards, including the vesting schedule and exercise price of options and awards. The stock plan authorizes the issuance of 6% of the outstanding shares of common stock determined on a fully diluted basis as of April 25, 2000, with adjustments to give effect to this offering and our recapitalization and in the case of changes in capitalization affecting the options.

At the completion of this offering, we intend to grant stock options to various employees, including our executive officers, under the 2000 Stock Option and Award Plan. An aggregate of 3,000,000 shares of common stock would be issuable upon the exercise of these options, and the exercise price of these options will be the initial public offering price. The following table sets forth the number of shares of our common stock underlying these options:

Wayne Smith	750,000
President and Chief Executive Officer	
Larry Cash	500,000
Executive Vice President and Chief Financial Officer	
David Miller	200,000
Group Vice President	
Gary Newsome	200,000
Group Vice President	
Michael Portacci	200,000
Group Vice President	
Executive officers as a group excluding named executive officers (12 persons).....	500,000
Other employees as a group.....	650,000

The stock plan provides that the term of any option may not exceed ten years, except in the case of the death of an optionee in which event the option may be exercised for up to one year following the date of death even if it extends beyond ten years from the date of grant. If a participant's employment, or service as a director, is terminated following a change in control, any options or stock appreciation rights become immediately and fully vested at that time and will remain outstanding until the earlier of the six-month anniversary of termination and the expiration of the option term.

THE COMMUNITY HEALTH SYSTEMS 2000 EMPLOYEE STOCK PURCHASE PLAN

We adopted the 2000 Employee Stock Purchase Plan in April, 2000. After the initial public offering, the plan allows our employees to purchase additional shares of our common stock on the

NYSE at the then current market price. Employees who elect to participate in the program will pay for these purchases with funds that we will withhold from their paychecks.

RELATIONSHIPS AND TRANSACTIONS BETWEEN COMMUNITY HEALTH SYSTEMS AND ITS OFFICERS, DIRECTORS AND 5% BENEFICIAL OWNERS AND THEIR FAMILY MEMBERS

In July 1996, we were formed by two Forstmann Little partnerships and members of our management to acquire CHS/Community Health Systems, Inc., which was then a publicly owned company named Community Health Systems, Inc. We financed the acquisition by issuing our common stock to the Forstmann Little partnerships and members of management, by incurring indebtedness under credit facilities, and by issuing an aggregate of \$500 million of subordinated debentures to one of the Forstmann Little partnerships, Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P. ("MBO-VI"). MBO-VI immediately distributed the subordinated debentures to its limited partners. The subordinated debentures are our general senior subordinated obligations, are not subject to mandatory redemption and mature in three equal annual installments beginning June 30, 2007, with the final payment due on June 30, 2009. The debentures bear interest at a fixed rate of 7.50% which is payable semi-annually in January and July. The balance of debentures outstanding at December 31, 1999 was \$500 million. Total interest expense for the debentures was \$37.5 million for each of the years ended December 31, 1997, 1998 and 1999.

We have engaged Greenwood Marketing and Management Services to provide oversight for our Senior Circle Association, which is a community affinity organization with local chapters sponsored by each of our hospitals. Greenwood Marketing and Management is a company owned and operated by Anita Greenwood Cash, the spouse of W. Larry Cash. In 1999, we paid Greenwood Marketing and Management Services \$268,000 for marketing services, postage, magazines, handbooks, sales brochures, training manuals, and membership services.

The law firm of King & Spalding, of which Mr. Samuel A. Nunn is a partner, has in the past provided, and may continue to provide, legal services to us and our subsidiaries.

The following executive officers of our company were indebted to us in amounts greater than \$60,000 since January 1, 1999 under full recourse promissory notes. These notes were delivered in partial payment for the purchase of our common stock. The promissory notes are secured by the shares to which they relate. The highest amounts outstanding under these notes since January 1, 1999 and the amounts outstanding at December 31, 1999 were as follows:

	SINCE JANUARY 1, 1999	AT DECEMBER 31, 1999	INTEREST RATE
W. Larry Cash.....	\$ 697,771	\$697,771	6.84%
David L. Miller.....	344,620	344,620	6.84%
Gary D. Newsome.....	221,707	221,707	6.84%
Michael T. Portacci.....	82,065	82,065	6.84%
John A. Fromhold.....	224,250	224,250	6.84%
Rachel A. Seifert.....	75,000	72,157	6.84%

In connection with the relocation of our corporate office from Houston to Nashville in May 1996, we lent \$100,000 to Mr. T. Mark Buford, our Vice President and Corporate Controller. This loan is due on December 15, 2000 and bears no interest.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock immediately prior to the consummation of the offering and as adjusted to reflect the sale of the shares of common stock pursuant to the offering. The table includes:

- each person who is known by us to be the beneficial owner of more than 5% of the outstanding common stock;
- each of our directors;
- each executive officer named in the summary compensation table; and
- all directors and executive officers as a group.

Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to all shares of common stock beneficially owned by them, except to the extent such power may be shared with a spouse.

NAME -----	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (a) -----	PERCENT BENEFICIALLY OWNED (a) -----	
		BEFORE OFFERING	AFTER OFFERING
5% STOCKHOLDERS:			
Forstmann Little & Co. Equity Partnership-V, L.P. (b).....	31,101,972	55.9%	41.8%
Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P. (b).....	22,215,575	40.0%	29.9%
DIRECTORS:			
Sheila P. Burke.....	19,786(c)	*	*
Robert J. Dole.....	29,679(d)	*	*
J. Anthony Forstmann(b).....	118,715(e)	*	*
Nicholas C. Forstmann(b).....	53,317,547	95.9%	71.7%
Theodore J. Forstmann(b).....	53,317,547	95.9%	71.7%
Dale F. Frey(b).....	29,679(f)	*	*
Sandra J. Horbach(b).....	53,317,547	95.9%	71.7%
Thomas H. Lister(b).....	31,101,972	55.9%	41.8%
Michael A. Miles(b).....	108,571(g)	*	*
Samuel A. Nunn(b).....	29,679(h)	*	*
Wayne T. Smith.....	717,440	1.3%	1.0%
OTHER NAMED EXECUTIVE OFFICERS:			
W. Larry Cash.....	219,797	*	*
David L. Miller.....	113,460(i)	*	*
Gary D. Newsome.....	66,592(j)	*	*
Michael T. Portacci.....	109,737(k)	*	*
All Directors and Executive Officers as a Group (19 persons).....	54,914,912(l)	98.4%	73.7%

* Less than 1%.

(a) For purposes of this table, information as to the shares of common stock assumes that the recapitalization has been effected and, in the case of the column "After Offering," that the underwriters' over-allotment option is not exercised. In addition, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock when such person or persons has the right to acquire them within 60 days after the date of this prospectus. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which such person or persons have the right to acquire within 60 days after the date of this prospectus is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(b) The general partner of Forstmann Little & Co. Equity Partnership-V, L.P., a Delaware limited partnership ("Equity-V"), is FLC XXX Partnership, L.P. a New York limited partnership of which Theodore J. Forstmann, Nicholas C. Forstmann, Sandra J. Horbach, Thomas H. Lister, Winston W. Hutchins, Erskine B. Bowles (through Tywana LLC, a North Carolina limited liability company having its principal business office at 2012 North Tryon Street, Suite 2450, Charlotte, N.C. 28202), Jamie C. Nicholls and S. Joshua Lewis are general partners. The general partner of Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VI, L.P., a Delaware limited partnership ("MBO-VI"), is FLC XXIX Partnership, L.P., a New York limited partnership of which Theodore J. Forstmann, Nicholas C. Forstmann, Sandra J. Horbach, Thomas H. Lister, Winston W. Hutchins, Erskine B. Bowles (through Tywana LLC), Jamie C. Nicholls and S. Joshua Lewis are general partners. Accordingly, each of the individuals named above, other than Mr. Lister, with respect to MBO-VI, and Mr. Bowles, Ms. Nicholls and Mr. Lewis, with respect to Equity-V and MBO-VI, for the reasons described below, may be deemed the beneficial owners of shares owned by MBO-VI and Equity-V and, for purposes of this table, beneficial ownership is included. Mr. Lister, with respect to MBO-VI, and Mr. Bowles, Ms. Nicholls and Mr. Lewis, with respect to Equity-V and MBO-VI, do not have any voting or investment power with respect to, or any economic interest in, the shares of common stock of the company held by MBO-VI or Equity-V; and, accordingly, Mr. Lister, Mr. Bowles, Ms. Nicholls and Mr. Lewis are not deemed to be the beneficial owners of these shares. Theodore J. Forstmann, Nicholas C. Forstmann and J. Anthony Forstmann are brothers. Messrs. Frey, Miles and Nunn are members of the Forstmann Little Advisory Board and, as such, have economic interests in the Forstmann Little partnerships. FLC XXX Partnership is a limited partner of Equity-V. Each of Messrs. J. Anthony Forstmann and Michael A. Miles is a special limited partner in one of the Forstmann Little partnerships. None of the other limited partners in each of MBO-VI and Equity-V is otherwise affiliated with Community Health Systems. The address of Equity-V and MBO-VI is c/o Forstmann Little & Co., 767 Fifth Avenue, New York, New York 10153.

- (c) Includes 19,786 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (d) Includes 29,679 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (e) Includes 29,679 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus. The remaining shares are held through a limited partnership interest in the Forstmann Little partnerships.
- (f) Includes 29,679 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (g) Includes 41,550 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus. The remaining shares are held through a limited partnership interest in the Forstmann Little partnerships.
- (h) Includes 29,679 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (i) Includes 3,561 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (j) Includes 3,561 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (k) Includes 5,342 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.
- (l) Includes 204,892 shares subject to options which are currently exercisable or exercisable within 60 days of the date of this prospectus.

DESCRIPTION OF INDEBTEDNESS

THE CREDIT AGREEMENT

We and our wholly owned subsidiary, CHS/Community Health Systems, Inc., are parties to a credit facility with a syndicate of banks and other financial institutions led by The Chase Manhattan Bank, as a lender and administrative agent, under which our subsidiary has, and may in the future, borrow. We have guaranteed the performance of our subsidiary under this credit facility. The credit facility consists of the following:

	BALANCE OUTSTANDING (AS OF MARCH 31, 2000) -----
Revolving credit facility.....	\$145,000,000
Acquisition loan facility.....	\$159,951,000
Tranche A term loan.....	\$ 27,250,000
Tranche B term loan.....	\$127,000,000
Tranche C term loan.....	\$127,000,000
Tranche D term loan.....	\$338,056,500

The loans bear interest, at our option, at either of the following rates:

(a) the highest of:

- the rate from time to time publicly announced by The Chase Manhattan Bank in New York as its prime rate;
 - the secondary market rate for three-month certificates of deposit from time to time plus 1%; and
 - the federal funds rate from time to time, plus 1/2 of 1%;
- in each case plus an applicable margin which is:
- based on a pricing grid depending on our leverage ratio at that time for the revolving credit loans, acquisition loans and the tranche A term loan;
 - 2.00% for the tranche B term loan;
 - 2.50% for the tranche C term loan;
 - 2.75% for the tranche D term loan; or

(b) a Eurodollar rate plus an applicable margin which is:

- based on a pricing grid depending on our leverage ratio at that time, for revolving credit loans, acquisition loans and the tranche A term loan;
- 3.00% for the tranche B loan;
- 3.50% for the tranche C loan;
- 3.75% for the tranche D loan.

The term loans are repayable in quarterly installments pursuant to a predetermined payment schedule through December 31, 2005.

We also pay a commitment fee for the daily average unused commitment under the revolving credit commitment and available acquisition loan commitment. The commitment fee is based on a pricing grid depending on the applicable margin in effect for Eurodollar revolving credit loans. The commitment fee is payable quarterly in arrears and on the revolving credit termination date with respect to the available revolving credit commitments and on the acquisition loan termination date with

respect to available acquisition loan commitments. In addition, we will pay fees for each letter of credit issued under the credit facility.

Loans under the revolving credit facility can be made at any time prior to December 31, 2002, provided that no loan taken pursuant to the revolving credit facility can mature later than December 31, 2002. The total borrowings we may have outstanding at any time under our revolving credit facility is \$200 million.

The acquisition facility is a reducing revolving credit facility that will be permanently reduced on predetermined anniversaries in accordance with a schedule. Once reduced, outstanding acquisition loans must be repaid to the extent they exceed the reduced level. The acquisition loan termination date is December 31, 2002. The total borrowings we may have outstanding at any time under our acquisition facility is \$282.5 million.

The loans must be prepaid with the net proceeds in excess of \$20 million in the aggregate of specified asset sales and issuances of additional indebtedness not constituting permitted indebtedness in the credit facility. These net proceeds will be applied first to prepay the outstanding balances of the term loans and the acquisition loans and then to repay outstanding balances of the revolving credit loans. The commitments under the acquisition loans and revolving credit loans will be permanently reduced by the amount of the repayment of these facilities.

The credit facility contains covenants and provisions that restrict, among other things, our ability to change the business we are conducting, declare dividends, grant liens, incur additional indebtedness, exceed a specified leverage ratio, fall below a minimum interest coverage ratio and make capital expenditures. Our wholly owned subsidiary, CHS/Community Health Systems, Inc., is prohibited from paying dividends or making other distributions to us except to the extent necessary to pay taxes, fees, and expenses to maintain our corporate existence and to conduct our activities as permitted by our guarantee of the obligations under the credit facility.

We will use the net proceeds of the offering to prepay indebtedness under this credit facility. See "Use of Proceeds."

SUBORDINATED DEBT

We issued an aggregate of \$500 million of subordinated debentures to MBO-VI in connection with the July 1996 acquisition of our subsidiary. MBO-VI immediately distributed the subordinated debentures to its limited partners. The subordinated debentures are divided into three equal series, due on June 30, 2007, June 30, 2008 and June 30, 2009. The subordinated debentures provide for interest at a rate of 7 1/2%, payable semi-annually. The subordinated debentures may be prepaid by us at any time without premium, penalty or charge and are subordinate to our credit agreement and other senior obligations. We have a right of first refusal on the transfer of the debentures.

DESCRIPTION OF CAPITAL STOCK

OVERVIEW

Immediately before the closing of the offering, we will be recapitalized as follows:

- each outstanding share of Class B common stock will be exchanged for .488 of a share of Class A common stock;
- each outstanding option to purchase a share of Class C common stock will be exchanged for an option to purchase .750 of a share of Class A common stock;
- the Class A common stock will be redesignated as common stock and adjusted for a stock split on a 118.7148-for-1 basis; and
- the certificate of incorporation will be amended and restated to reflect a single class of common stock, par value \$.01 per share, and the number of authorized shares of common stock and preferred stock will be increased.

After giving effect to these changes to our certificate of incorporation, our authorized capital stock will consist of 300,000,000 shares of common stock, \$.01 par value per share, and 100,000,000 shares of preferred stock, \$.01 par value per share.

After giving effect to these changes to our certificate of incorporation and the 118.7148-for-1 stock split, but before the closing of the offering, based on share information as of April 30, 2000, there will be 55,592,859 shares of common stock outstanding and no shares of preferred stock outstanding. After the closing of the offering, there will be 74,342,859 shares of common stock outstanding.

After the closing of the offering, the Forstmann Little partnerships and our management will beneficially own approximately 74.78% of the outstanding common stock, 75.03% on a fully diluted basis. As long as the Forstmann Little partnerships and our management continue to own in the aggregate more than 50% of the outstanding shares of common stock, they will collectively have the power to:

- elect our entire board of directors;
- determine without the consent of other stockholders, the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets;
- prevent or cause a change in control; and
- approve substantially all amendments to our certificate of incorporation.

The Forstmann Little partnerships have a contractual right to elect two directors until such time as they no longer own any of our shares of common stock.

The following summary contains material information relating to provisions of our common stock, preferred stock, certificate of incorporation and by-laws is not intended to be complete and is qualified by reference to the provisions of applicable law and to our certificate of incorporation and by-laws included as exhibits to the registration statement of which this prospectus is a part.

COMMON STOCK

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the outstanding shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds. Upon our

liquidation, dissolution or winding-up, holders of common stock are entitled to receive ratably our net assets available for distribution after the payment of all of our liabilities and the payment of any required amounts to the holders of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, and the shares sold in the offering will be, when issued and paid for, validly issued, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock that may designate and issue in the future.

PREFERRED STOCK

Our board of directors is authorized, subject to any limitations prescribed by law, without further stockholder approval, to establish from time to time one or more classes or series of preferred stock covering up to an aggregate of 100,000,000 shares of preferred stock, and to issue such shares of preferred stock. Each class or series of preferred stock will cover such number of shares and will have such preferences, voting powers, qualifications and special or relative rights or privileges as is determined by the board of directors, which may include, among others, dividend rights, liquidation preferences, voting rights, conversion rights, preemptive rights, and redemption rights.

The purpose of authorizing the board of directors to establish preferred stock is to eliminate delays associated with a stockholders vote on the creation of a particular class or series of preferred stock. The rights of the holders of common stock will be subject to the rights of holders of any preferred stock issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of discouraging, delaying or preventing an acquisition of our company at a price which many stockholders find attractive. These provisions could also make it more difficult for our stockholders to effect certain corporate actions, including the election of directors. We have no present plans to issue any shares of preferred stock.

LIMITATION ON LIABILITY AND INDEMNIFICATION MATTERS

Our certificate of incorporation limits the liability of our directors to us and our stockholders to the fullest extent permitted by Delaware law. Specifically, our directors will not be personally liable for money damages for breach of fiduciary duty as a director, except for liability

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law, which concerns unlawful payments of dividends, stock purchases, or redemptions; and
- for any transaction from which the director derived an improper personal benefit.

Our certificate of incorporation and by-laws will also contain provisions indemnifying our directors and officers to the fullest extent permitted by Delaware law. The indemnification permitted under Delaware law is not exclusive of any other rights to which such persons may be entitled.

In addition, we maintain directors' and officers' liability insurance to provide our directors and officers with insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts.

We have entered into, or intend to enter into, indemnification agreements with our directors and executive officers. These agreements contain provisions that may require us, among other things, to indemnify these directors and executive officers against certain liabilities that may arise because of their

status or service as directors or executive officers, advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified and obtain directors' and officers' liability insurance.

At present there is no pending litigation or proceeding involving any director or officer, as to which indemnification is required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

ANTI-TAKEOVER EFFECTS OF OUR CERTIFICATE OF INCORPORATION AND BY-LAWS AND PROVISIONS OF DELAWARE LAW

A number of provisions in our certificate of incorporation, by-laws and Delaware law may make it more difficult to acquire control of us. These provisions could deprive the stockholders of opportunities to realize a premium on the shares of common stock owned by them. In addition, these provisions may adversely affect the prevailing market price of the common stock. These provisions are intended to:

- enhance the likelihood of continuity and stability in the composition of the board and in the policies formulated by the board;
- discourage certain types of transactions which may involve an actual or threatened change in control of our company;
- discourage certain tactics that may be used in proxy fights; and
- encourage persons seeking to acquire control of our company to consult first with the board of directors to negotiate the terms of any proposed business combination or offer.

STAGGERED BOARD. Our certificate of incorporation and by-laws will provide that the number of our directors shall be fixed from time to time by a resolution of a majority of our board of directors. Our certificate of incorporation and by-laws also provide that the board of directors shall be divided into three classes. The members of each class of directors will serve for staggered three-year terms. In accordance with the Delaware General Corporation Law, directors serving on classified boards of directors may only be removed from office for cause. The classification of the board has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of the members of the board. Subject to the rights of the holders of any outstanding series of preferred stock, vacancies on the board of directors may be filled only by a majority of the remaining directors, or by the sole remaining director, or by the stockholders if the vacancy was caused by removal of the director by the stockholders. This provision could prevent a stockholder from obtaining majority representation on the board by enlarging the board of directors and filling the new directorships with its own nominees.

ADVANCE NOTICE PROCEDURES FOR STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS. Our by-laws will provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice generally must be delivered to or mailed and received at our principal executive offices not less than 45 or more than 75 days prior to the first anniversary of the date on which we first mailed our proxy materials for the preceding year's annual meeting of stockholders. However, if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, to be timely, notice by the stockholder must be delivered not later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the day on which public announcement of the date of the meeting is first made. The by-laws will also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

STOCKHOLDER ACTION BY WRITTEN CONSENT. Our by-laws provide that stockholders may take action by written consent.

PREFERRED STOCK. The ability of our board to establish the rights and issue substantial amounts of preferred stock without the need for stockholder approval, while providing desirable flexibility in connection with possible acquisitions, financings, and other corporate transactions, may among other things, discourage, delay, defer, or prevent a change in control of the company.

AUTHORIZED BUT UNISSUED SHARES OF COMMON STOCK. The authorized but unissued shares of common stock are available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

WE HAVE OPTED OUT OF SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW. Our certificate of incorporation provides that we have opted out of the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Because we have opted out in the manner permitted under Delaware law, the restrictions of this provision will not apply to us.

SHARES ELIGIBLE FOR FUTURE SALE

RULE 144 SECURITIES

Upon the consummation of the offering, we will have 74,342,859 shares of common stock outstanding. Of these shares, only the 18,750,000 shares of common stock sold in the offering will be freely tradable without registration under the Securities Act and without restriction by persons other than our "affiliates." The 55,592,859 shares of common stock held by the Forstmann Little partnerships and our directors and executive officers and other existing shareholders after the offering will be "restricted" securities under the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act, unless an exemption from registration is available, including exemptions pursuant to Rule 144 or Rule 144A under the Securities Act.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of either of the following:

- 1% of the number of shares of common stock then outstanding, which will equal approximately the number of shares outstanding immediately after the offering, or
- the average weekly trading volume of the common stock on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been one of our "affiliates" at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an "affiliate," is entitled to sell its shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold

immediately upon the completion of the offering. The sale of these shares, or the perception that sales will be made, could adversely affect the price of our common stock after the offering because a greater supply of shares would be, or would be perceived to be, available for sale in the public market.

We and our executive officers and directors and all existing stockholders have agreed that, without the prior written consent of Merrill Lynch & Co. on behalf of the underwriters, it will not, during the period ended 180 days after the date of this prospectus, sell shares of common stock or take certain related actions, subject to limited exceptions, all as described under "Underwriting."

REGISTRATION RIGHTS

We have entered into a registration rights agreement with the Forstmann Little partnerships, pursuant to which we have granted to the Forstmann Little partnerships six demand rights to cause us to file a registration statement under the Securities Act covering resales of all shares of common stock held by the Forstmann Little partnerships, and to cause the registration statement to become effective. The registration rights agreement also grants "piggyback" registration rights permitting the Forstmann Little partnerships to include its registrable securities in a registration of securities by us. Under the agreement, we will pay the expenses of such registrations.

In addition, pursuant to the stockholder's and subscription agreements, we have granted "piggyback" registration rights to all of our employees and directors who have purchased shares of common stock and/or that have been awarded options to purchase shares of common stock. These registration rights are exercisable only upon registration by us of shares of common stock held by the Forstmann Little partnerships. The holders of common stock entitled to these registration rights are entitled to notice of any proposal to register shares held by the Forstmann Little partnerships and to include their shares in such registration. We will pay the expenses of these piggyback registrations.

UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS

The following is a general discussion of the principal United States federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder. As used in this discussion, the term "non-U.S. holder" means a beneficial owner of our common stock that is not, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision of the United States, other than a partnership treated as foreign under U.S. Treasury regulations;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust, in general, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust.

An individual may be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes, instead of a nonresident, by, among other ways, being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, you would count all of the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income purposes as if they were U.S. citizens.

This discussion does not consider:

- U.S. state and local or non-U.S. tax consequences;
- specific facts and circumstances that may be relevant to a particular non-U.S. holder's tax position, including, if the non-U.S. holder is a partnership that the U.S. tax consequences of holding and disposing of our common stock may be affected by certain determinations made at the partner level;
- the tax consequences for the shareholders, partners or beneficiaries of a non-U.S. holder;
- special tax rules that may apply to particular non-U.S. holders, such as financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, broker-dealers, and traders in securities; or
- special tax rules that may apply to a non-U.S. holder that holds our common stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment.

The following discussion is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, applicable U.S. Treasury regulations and administrative and judicial interpretations, all as in effect on the date of this prospectus, and all of which are subject to change, retroactively or prospectively. The following summary assumes that a non-U.S. holder holds our common stock as a capital asset. EACH NON-U.S. HOLDER SHOULD CONSULT A TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES OF ACQUIRING, HOLDING, AND DISPOSING OF SHARES OF OUR COMMON STOCK.

DIVIDENDS

We do not anticipate paying cash dividends on our common stock in the foreseeable future. See "Dividend Policy." In the event, however, that we pay dividends on our common stock, we will have to withhold a U.S. federal withholding tax at a rate of 30%, or a lower rate under an applicable income tax treaty, from the gross amount of the dividends paid to a non-U.S. holder. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

Dividends paid prior to 2001 to an address in a foreign country are presumed, absent actual knowledge to the contrary, to be paid to a resident of such country for purposes of the withholding discussed above and for purposes of determining the applicability of a tax treaty rate. For dividends paid after 2000:

- a non-U.S. holder who claims the benefit of an applicable income tax treaty rate generally will be required to satisfy applicable certification and other requirements;
- in the case of common stock held by a foreign partnership, the certification requirement will generally be applied to the partners of the partnership and the partnership will be required to provide certain information, including a U.S. taxpayer identification number; and
- look-through rules will apply for tiered partnerships.

A non-U.S. holder that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the U.S. Internal Revenue Service.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States or, if an income tax treaty applies, attributable to a permanent establishment in the United States, are taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons. In that case, we will not have to withhold U.S. federal withholding tax if the

non-U.S. holder complies with applicable certification and disclosure requirements. In addition, a "branch profits tax" may be imposed at a 30% rate, or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with the conduct of a trade or business in the United States.

GAIN ON DISPOSITION OF COMMON STOCK

A non-U.S. holder generally will not be taxed on gain recognized on a disposition of our common stock unless:

- the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States or, alternatively, if an income tax treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States; in these cases, the gain will be taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons and, if the non-U.S. holder is a foreign corporation, the "branch profits tax" described above may also apply;
- the non-U.S. holder is an individual who holds our common stock as a capital asset, is present in the United States for more than 182 days in the taxable year of the disposition and meets other requirements; or
- we are or have been a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time during the shorter of the five year period ending on the date of disposition or the period that the non-U.S. holder held our common stock.

In general, we will be treated as a "U.S. real property holding corporation" if the fair market value of our "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of our worldwide real property interests and our other assets used or held for use in a trade or business. Currently, it is our best estimate that the fair market value of our U.S. real property interests is, and has been for at least the previous five years, less than 50% of the sum of the fair market value of our worldwide real property interests and our other assets, including goodwill, used or held for use in a trade or business. Therefore, we believe that we are not currently a U.S. real property holding corporation. Nor do we anticipate becoming a U.S. real property holding corporation in the future.

However, even if we are or have been a U.S. real property holding corporation, a non-U.S. holder which did not beneficially own, directly or indirectly, more than 5% of the total fair market value of our common stock at any time during the shorter of the five-year period ending on the date of disposition or the period that our common stock was held by the non-U.S. holder (a "non-5% holder") and which is not otherwise taxed under any other circumstances described above, generally will not be taxed on any gain realized on the disposition of our common stock if, at any time during the calendar year of the disposition, our common stock was regularly traded on an established securities market within the meaning of the applicable U.S. Treasury regulations.

We have applied to have our common stock listed on the NYSE. Although not free from doubt, our common stock should be considered to be regularly traded on an established securities market for any calendar quarter during which it is regularly quoted on the NYSE by brokers or dealers which hold themselves out to buy or sell our common stock at the quoted price. If our common stock were not considered to be regularly traded on the NYSE at any time during the applicable calendar year, then a non-5% holder would be taxed for U.S. federal income tax purposes on any gain realized on the disposition of our common stock on a net income basis as if the gain were effectively connected with the conduct of a U.S. trade or business by the non-5% holder during the taxable year and, in such case, the person acquiring our common stock from a non-5% holder generally would have to withhold 10% of the amount of the proceeds of the disposition. Such withholding may be reduced or eliminated pursuant to a withholding certificate issued by the U.S. Internal Revenue Service in accordance with

applicable U.S. Treasury regulations. We urge all non-U.S. holders to consult their own tax advisors regarding the application of these rules to them.

FEDERAL ESTATE TAX

Common stock owned or treated as owned by an individual who is a non-U.S. holder at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise and, therefore, may be subject to U.S. federal estate tax.

INFORMATION REPORTING AND BACKUP WITHHOLDING TAX

We must report annually to the U.S. Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to that holder and the tax withheld from those dividends. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Under some circumstances, U.S. Treasury regulations require additional information reporting and backup withholding at a rate of 31% on some payments on common stock. Under currently applicable law, non-U.S. holders generally will be exempt from these additional information reporting requirements and from backup withholding on dividends paid prior to 2001 if we either were required to withhold a U.S. federal withholding tax from those dividends or we paid those dividends to an address outside the United States. After 2000, however, the gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder status in accordance with applicable U.S. Treasury regulations generally will be reduced by backup withholding at a rate of 31%.

The payment of the proceeds of the disposition of common stock by a non-U.S. holder to or through the U.S. office of a broker or a non-U.S. office of a U.S. broker generally will be reported to the U.S. Internal Revenue Service and reduced by backup withholding at a rate of 31% unless the non-U.S. holder either certifies its status as a non-U.S. holder under penalties of perjury or otherwise establishes an exemption and the broker has no actual knowledge to the contrary. The payment of the proceeds of the disposition of common stock by a non-U.S. holder to or through a non-U.S. office of a non-U.S. broker will not be reduced by backup withholding or reported to the U.S. Internal Revenue Service unless the non-U.S. broker has certain enumerated connections with the United States. In general, the payment of proceeds from the disposition of common stock by or through a non-U.S. office of a broker that is a U.S. person or has certain enumerated connections with the United States will be reported to the U.S. Internal Revenue Service and, after 2000, may be reduced by backup withholding at a rate of 31%, unless the broker receives a statement from the non-U.S. holder, signed under penalty of perjury, certifying its non-U.S. status or the broker has documentary evidence in its files that the holder is a non-U.S. holder and the broker has no actual knowledge to the contrary.

Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them, including changes to these rules that will become effective after 2000.

Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder will be refunded, or credited against the holder's U.S. federal income tax liability, if any, provided that the required information is furnished to the U.S. Internal Revenue Service.

UNDERWRITING

We intend to offer the shares in the U.S. and Canada through the U.S. underwriters and elsewhere through the international managers. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co., and Morgan Stanley & Co. Incorporated are acting as U.S. representatives of the U.S. underwriters named below. Subject to the terms and conditions described in a U.S. purchase agreement between us and the U.S. underwriters, and concurrently with the sale of 2,812,500 shares to the international managers, we have agreed to sell to the U.S. underwriters, and the U.S. underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

U.S. UNDERWRITER	NUMBER OF SHARES
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	
Banc of America Securities LLC.....	
Chase Securities Inc.....	
Credit Suisse First Boston Corporation.....	
Goldman, Sachs & Co.....	
Morgan Stanley & Co. Incorporated.....	
Total.....	----- 15,937,500 =====

We have also entered into an international purchase agreement with the international managers for sale of the shares outside the U.S. and Canada for whom Merrill Lynch International, Bank of America International Limited, Chase Manhattan International Limited, Credit Suisse First Boston (Europe) Limited, Goldman Sachs International, and Morgan Stanley & Co. International Limited are acting as lead managers. Subject to the terms and conditions in the international purchase agreement, and concurrently with the sale of 15,937,500 shares to the U.S. underwriters pursuant to the U.S. purchase agreement, we have agreed to sell to the international managers, and the international managers severally have agreed to purchase 2,812,500 shares from us. The initial public offering price per share and the total underwriting discount per share are identical under the U.S. purchase agreement and the international purchase agreement.

The U.S. underwriters and the international managers have agreed to purchase all of the shares sold under the U.S. and international purchase agreements if any of these shares are purchased. If an underwriter defaults, the U.S. and international purchase agreements provide that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreements may be terminated. The closings for the sale of shares to be purchased by the U.S. underwriters and the international managers are conditioned on one another.

We have agreed to indemnify the U.S. underwriters and the international managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the U.S. underwriters and international managers may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as, and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreements, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel, or modify offers to the public and to reject orders in whole or in part.

COMMISSIONS AND DISCOUNTS

The U.S. representatives have advised us that the U.S. underwriters propose initially to offer the shares to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of \$ per share. The U.S. underwriters may allow, and the dealers may reallow, a discount not in excess of \$ per share to other dealers. After the initial public offering, the public offering price, concession, and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before our expenses. The information assumes either no exercise or full exercise by the U.S. underwriters and the international managers of their over-allotment options.

	PER SHARE	WITHOUT OPTION	WITH OPTION
	-----	-----	-----
Public offering price.....	\$	\$	\$
Underwriting discount.....	\$	\$	\$
Proceeds before expenses to Community Health Systems.....	\$	\$	\$

The expenses of the offering, not including the underwriting discount, are estimated at \$ and are payable by us.

OVER-ALLOTMENT OPTION

We have granted options to the U.S. underwriters to purchase up to 2,390,625 additional shares at the public offering price less the underwriting discount. The U.S. underwriters may exercise these options for 30 days from the date of this prospectus solely to cover any over-allotments. If the U.S. underwriters exercise these options, each will be obligated, subject to conditions contained in the purchase agreements, to purchase a number of additional shares proportionate to that U.S. underwriter's initial amount reflected in the above table.

We have also granted options to the international managers, exercisable for 30 days from the date of this prospectus, to purchase up to 421,875 additional shares to cover any over-allotments on terms similar to those granted to the U.S. underwriters.

INTERSYNDICATE AGREEMENT

The U.S. underwriters and the international managers have entered into an intersyndicate agreement that provides for the coordination of their activities. Under the intersyndicate agreement, the U.S. underwriters and the international managers may sell shares to each other for purposes of resale at the initial public offering price, less an amount not greater than the selling concession. Under the intersyndicate agreement, the U.S. underwriters and any dealer to whom they sell shares will not offer to sell or sell shares to persons who are non-U.S. or non-Canadian persons or to persons they believe intend to resell to persons who are non-U.S. or non-Canadian persons, except in the case of transactions under the intersyndicate agreement. Similarly, the international managers and any dealer to whom they sell shares will not offer to sell or sell shares to U.S. persons or Canadian persons or to persons they believe intend to resell to U.S. or Canadian persons, except in the case of transactions under the intersyndicate agreement.

RESERVED SHARES

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 5% of the shares offered for sale in the offering for sale to some of our directors, officers, employees, business associates, and related persons. These persons include physicians who maintain staff privileges at some of our hospitals. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of the offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus. There is no expectation or

requirement that any person who purchases reserved shares will refer, either directly or indirectly, any patients to our hospitals.

NO SALES OF SIMILAR SECURITIES

We and our executive officers and directors and all existing stockholders have agreed, with exceptions, not to sell or transfer any common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. This lockup provision does not limit our ability to grant options to purchase common stock under stock option plans or to issue common stock under our employee stock purchase plan.

NEW YORK STOCK EXCHANGE LISTING

The shares have been approved for listing on the NYSE under the symbol "CYH." In order to meet the requirements for listing on that exchange, the U.S. underwriters and the international managers have undertaken to sell a minimum number of shares to a minimum number of beneficial owners as required by that exchange.

Before the offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations among us and the U.S. representatives and lead managers. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are

- the valuation multiples of publicly traded companies that the U.S. representatives and the lead managers believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

NASD REGULATIONS

It is anticipated that more than ten percent of the proceeds of the offering will be applied to pay down debt obligations owed to affiliates of Chase Securities Inc., Banc of America Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Morgan Stanley & Co. Incorporated. Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(c)(8). This rule requires that the public offering price of an equity security be no higher than the price recommended by a qualified independent underwriter which has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to act as qualified independent underwriter for the offering. The price of the shares will be no higher than that recommended by Merrill Lynch, Pierce, Fenner & Smith Incorporated.

PRICE STABILIZATION, SHORT POSITIONS, AND PENALTY BIDS

Until the distribution of the shares is completed, Commission rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the U.S. representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the U.S. representatives may reduce that short position by purchasing shares in the open market. The U.S. representatives may also elect to reduce any short position by exercising all or part of the over-allotment option described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

The U.S. representatives may also impose a penalty bid on underwriters. This means that if the U.S. representatives purchase shares in the open market to reduce the underwriter's short position or to stabilize the price of such shares, they may reclaim the amount of the selling concession from the underwriters who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the U.S. representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

OTHER RELATIONSHIPS

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. In particular, an affiliate of Chase Securities Inc. acts as administrative agent for our credit facility and affiliates of Chase Securities Inc., Banc of America Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Morgan Stanley & Co. are lenders under our credit facility. Michael A. Miles, our Chairman of the Board, is a director of Morgan Stanley Dean Witter and receives customary compensation for serving in this position.

Merrill Lynch will be facilitating internet distribution for the offering to some of its internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus is available on the website maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch website relating to the offering is not a part of this prospectus.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), New York, New York. Certain legal matters related to the offering will be passed upon for the underwriters by Debevoise & Plimpton, New York, New York. Fried, Frank, Harris, Shriver & Jacobson has in the past provided, and may continue to provide, legal services to Forstmann Little and its affiliates.

EXPERTS

The consolidated financial statements as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1, which includes amendments, exhibits, schedules and supplements, under the Securities Act and the rules and regulations under the Securities Act, for the registration of the common stock offered by this prospectus. Although this prospectus, which forms a part of the registration statement, contains all material information included in the registration statement, parts of the registration statement have been omitted from this prospectus as permitted by the rules and regulations of the Commission. For further information with respect to us and the common stock offered by this prospectus, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contracts or other document referred to in this prospectus are not necessarily complete and, where such contract or other document is an exhibit to the registration statement, each such statement is qualified in all respects by the provisions of such exhibit, to which reference is now made. The registration statement can be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the registration statement is publicly available through the Commission's site on the Internet's World Wide Web, located at: <http://www.sec.gov>. Following the offering, our future public filings are expected to be available for inspection at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

After the offering, we will be subject to the full informational requirements of the Securities Exchange Act. To comply with these requirements, we will file periodic reports, proxy statements and other information with the Commission.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different information you should not rely on it. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or of any sale of common stock. Our business, financial condition, results of operations, and prospects may have changed since that date.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Brentwood, Tennessee

We have audited the accompanying consolidated balance sheets of Community Health Systems, Inc. (formerly Community Health Systems Holdings Corp.) and subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Community Health Systems, Inc. and subsidiaries as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

Nashville, Tennessee
February 25, 2000 (May , 2000 as to Notes 9, 10, 14 and a portion of Note 1)

THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS GIVE EFFECT TO THE RECAPITALIZATION OF THE COMPANY WHICH INCLUDES THE EXCHANGE OF CLASS B COMMON STOCK FOR CLASS A COMMON STOCK, THE EXCHANGE OF OPTIONS TO ACQUIRE CLASS C COMMON STOCK FOR OPTIONS TO ACQUIRE CLASS A COMMON STOCK, THE REDESIGNATION OF CLASS A COMMON STOCK AS COMMON STOCK AND A 118.7148-FOR-1 STOCK SPLIT OF THE COMMON STOCK. THE FOREGOING REPORT IS THE FORM WHICH WILL BE FURNISHED BY DELOITTE & TOUCHE LLP UPON COMPLETION OF THE RECAPITALIZATION AND EXCHANGE DESCRIBED IN NOTE 14 TO THE CONSOLIDATED FINANCIAL STATEMENTS AND ASSUMING THAT FROM DECEMBER 31, 1999 TO THE DATE OF SUCH COMPLETION NO OTHER MATERIAL EVENTS HAVE OCCURRED THAT WOULD AFFECT THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS OR REQUIRED DISCLOSURES THEREIN.

/s/ Deloitte & Touche LLP
Nashville, Tennessee
February 25, 2000

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	AS OF DECEMBER 31,	
	1998	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 6,719	\$ 4,282
Patient accounts receivable, net of allowance for doubtful accounts of \$28,771 and \$34,499 in 1998 and 1999, respectively.....	168,652	226,350
Supplies.....	26,037	32,134
Prepaid and current deferred income taxes.....	7,564	5,862
Prepaid expenses.....	7,456	9,846
Other current assets.....	13,683	22,022
Total current assets.....	230,111	300,496
PROPERTY AND EQUIPMENT		
Land and improvements.....	35,804	41,327
Buildings and improvements.....	402,853	470,856
Equipment and fixtures.....	184,472	219,659
Less accumulated depreciation and amortization.....	(623,129)	(731,842)
Property and equipment, net.....	553,015	623,343
GOODWILL, NET OF ACCUMULATED AMORTIZATION OF \$73,058 AND \$97,766 IN 1998 AND 1999, RESPECTIVELY.....		
	878,416	877,890
OTHER ASSETS, NET OF ACCUMULATED AMORTIZATION OF \$27,343 AND \$34,265 IN 1998 AND 1999, RESPECTIVELY.....		
	85,474	93,355
TOTAL ASSETS.....	\$1,747,016	\$1,895,084
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt.....	\$ 21,248	\$ 27,029
Accounts payable.....	63,843	57,392
Compliance settlement payable.....	20,000	30,900
Accrued liabilities		
Employee compensation.....	36,524	49,346
Interest.....	25,523	19,451
Other.....	59,550	51,159
Total current liabilities.....	226,688	235,277
LONG-TERM DEBT.....	1,246,594	1,407,604
OTHER LONG-TERM LIABILITIES.....	26,908	22,495
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized, none issued.....	--	--
Common stock, \$.01 par value per share, 300,000,000 shares authorized; 56,793,516 shares issued and 55,607,632 and 55,592,859 shares outstanding at December 31, 1998 and 1999, respectively.....	568	568
Additional paid-in capital.....	482,086	483,235
Accumulated deficit.....	(228,563)	(245,352)
Treasury stock, at cost, 1,185,884 and 1,200,657 shares at December 31, 1998 and 1999, respectively.....	(5,555)	(6,587)
Notes receivable for common stock.....	(1,710)	(1,997)
Unearned stock compensation.....	--	(159)
Total stockholders' equity.....	246,826	229,708
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$1,747,016	\$1,895,084

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
NET OPERATING REVENUES.....	\$ 742,350	\$ 854,580	\$ 1,079,953
OPERATING COSTS AND EXPENSES			
Salaries and benefits.....	296,779	328,264	419,320
Provision for bad debts.....	57,376	69,005	95,149
Supplies.....	90,391	100,633	126,693
Rent.....	20,281	22,344	25,522
Other operating expenses.....	155,285	167,944	209,084
Depreciation and amortization.....	43,753	49,861	56,943
Amortization of goodwill.....	25,404	26,639	24,708
Impairment of long-lived assets.....	--	164,833	--
Compliance settlement and Year 2000 remediation costs.....	--	20,209	17,279
TOTAL OPERATING COSTS AND EXPENSES.....	689,269	949,732	974,698
INCOME (LOSS) FROM OPERATIONS.....	53,081	(95,152)	105,255
INTEREST EXPENSE, NET OF INTEREST INCOME OF \$71, \$261, AND \$288 IN 1997, 1998 AND 1999, RESPECTIVELY.....	89,753	101,191	116,491
LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE AND INCOME TAXES.....	(36,672)	(196,343)	(11,236)
PROVISION FOR (BENEFIT FROM) INCOME TAXES.....	(4,501)	(13,405)	5,553
LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE.....	(32,171)	(182,938)	(16,789)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES OF \$189.....	--	(352)	--
NET LOSS.....	\$ (32,171)	\$ (183,290)	\$ (16,789)
BASIC AND DILUTED LOSS PER COMMON SHARE:			
Loss before cumulative effect of a change in accounting principle.....	\$ (0.60)	\$ (3.39)	\$ (0.31)
Cumulative effect of a change in accounting principle.....	--	(0.01)	--
Net loss.....	\$ (0.60)	\$ (3.40)	\$ (0.31)
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED.....	53,568,891	53,892,388	54,258,465
Pro forma information (unaudited):			
Pro forma basic and diluted loss per common share...			\$ (.05)
Pro forma weighted-average number of shares outstanding, basic and diluted.....			73,008,481

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASURY STOCK		NOTES RECEIVABLE FOR COMMON STOCK
	SHARES	AMOUNT			SHARES	AMOUNT	
BALANCE, January 1, 1997....	56,320,089	\$563	\$479,126	\$ (13,102)	--	\$ --	\$ (904)
Issuance of common stock..	210,354	2	1,308	--	--	--	(634)
Common stock purchased for treasury, at cost.....	--	--	--	--	(168,527)	(1,041)	450
Payments on notes receivable.....	--	--	--	--	--	--	38
Net loss.....	--	--	--	(32,171)	--	--	--
BALANCE, December 31, 1997.....	56,530,443	565	480,434	(45,273)	(168,527)	(1,041)	(1,050)
Issuance of common stock..	263,073	3	1,652	--	186,139	1,120	(900)
Common stock purchased for treasury, at cost.....	--	--	--	--	(1,203,496)	(5,634)	204
Payments on notes receivable.....	--	--	--	--	--	--	36
Net loss.....	--	--	--	(183,290)	--	--	--
BALANCE, December 31, 1998.....	56,793,516	568	482,086	(228,563)	(1,185,884)	(5,555)	(1,710)
Issuance of common stock..	--	--	907	--	390,004	1,748	(440)
Common stock purchased for treasury, at cost.....	--	--	--	--	(404,777)	(2,780)	--
Payments on notes receivable.....	--	--	--	--	--	--	153
Unearned stock compensation.....	--	--	242	--	--	--	--
Earned stock compensation.....	--	--	--	--	--	--	--
Net loss.....	--	--	--	(16,789)	--	--	--
BALANCE, December 31, 1999.....	56,793,516	\$568	\$483,235	\$(245,352)	(1,200,657)	\$(6,587)	\$(1,997)

	UNEARNED STOCK COMPENSATION	
	TOTAL	
BALANCE, January 1, 1997....	\$ --	\$ 465,683
Issuance of common stock..	--	676
Common stock purchased for treasury, at cost.....	--	(591)
Payments on notes receivable.....	--	38
Net loss.....	--	(32,171)
BALANCE, December 31, 1997.....	--	433,635
Issuance of common stock..	--	1,875
Common stock purchased for treasury, at cost.....	--	(5,430)
Payments on notes receivable.....	--	36
Net loss.....	--	(183,290)
BALANCE, December 31, 1998.....	--	246,826
Issuance of common stock..	--	2,215
Common stock purchased for treasury, at cost.....	--	(2,780)
Payments on notes receivable.....	--	153
Unearned stock compensation.....	(242)	--
Earned stock compensation.....	83	83
Net loss.....	--	(16,789)
BALANCE, December 31, 1999.....	\$(159)	\$ 229,708

See notes to consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss.....	\$(32,171)	\$(183,290)	\$ (16,789)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	69,157	76,500	81,651
Deferred income taxes.....	(5,751)	(14,797)	(3,799)
Impairment charge.....	--	164,833	--
Compliance settlement costs.....	--	20,000	14,000
Stock compensation expense.....	--	--	83
Other non-cash (income) expenses, net.....	146	(528)	(570)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Patient accounts receivable.....	4,526	(33,908)	(42,973)
Supplies, prepaid expenses and other current assets.....	11,076	(7,724)	(17,598)
Accounts payable, accrued liabilities and income taxes.....	(17,184)	4,461	(28,071)
Other.....	(8,255)	(9,828)	2,320
Net cash provided by (used in) operating activities.....	21,544	15,719	(11,746)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of facilities, pursuant to purchase agreements.....	(36,296)	(172,597)	(59,699)
Proceeds from sale of facilities.....	18,750	--	--
Purchases of property and equipment.....	(49,422)	(52,880)	(80,255)
Proceeds from sale of equipment.....	596	1,531	121
Increase in other assets.....	(10,279)	(12,607)	(15,708)
Net cash used in investing activities.....	(76,651)	(236,553)	(155,541)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock.....	676	1,875	2,215
Common stock purchased for treasury.....	(1,041)	(5,634)	(2,780)
Borrowings under credit agreement.....	73,404	242,491	436,300
Repayments of long-term indebtedness.....	(36,857)	(18,842)	(270,885)
Net cash provided by financing activities.....	36,182	219,890	164,850
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(18,925)	(944)	(2,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	26,588	7,663	6,719
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 7,663	\$ 6,719	\$ 4,282

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS. In June 1996, Community Health Systems Inc. (formerly Community Health Systems Holding Corp.) (the "Company") through its wholly-owned subsidiary, FLCH Acquisition Corp. ("Acquisition Corp."), corporations formed by affiliates of Forstmann Little & Co. ("FL&Co."), entered into an agreement to acquire (the "Acquisition") all of the outstanding common stock of CHS/Community Health Systems, Inc. ("CHS"). The aggregate purchase price for the Acquisition was \$1,100.2 million. The purchase price, the refinancing of certain CHS debt obligations (\$140.8 million) and payments for cancellation of CHS stock options (\$47.5 million) were funded by the issuance of \$482.1 million of common stock, \$500 million of subordinated debentures and \$415 million of Term Loans under the Credit Agreement (see Note 5).

The Company owns, leases and operates acute care hospitals that are the principal providers of primary healthcare services in non-urban communities. As of December 31, 1999, the Company owned, leased or operated 46 hospitals, licensed for 4,115 beds in 20 states.

USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain of the subsidiaries have minority stockholders. The amount of minority interest in equity and minority interest in income or loss is not material and is included in other long-term liabilities and other operating expenses.

CASH EQUIVALENTS. The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

SUPPLIES. Supplies, principally medical supplies, are stated at the lower of cost (first-in, first-out basis) or market.

PROPERTY AND EQUIPMENT. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land improvements (2 to 15 years; weighted average useful life is 11 years), buildings and improvements (5 to 40 years; weighted average useful life is 33 years) and equipment and fixtures (5 to 20 years; weighted average useful life is 7 years). Costs capitalized as construction in progress were \$17.9 million and \$27.2 million at December 31, 1998 and 1999, respectively, and are included in buildings and improvements. Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs which do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Interest capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost," was \$0.6 million, \$0.7 million and \$1.4 million for the years ended December 31, 1997, 1998, and 1999, respectively.

The Company also leases certain facilities and equipment under capital leases (see Notes 2 and 7). Such assets are amortized on a straight-line basis over the lesser of the terms of the respective leases, or the remaining useful lives of the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL. Goodwill represents the excess of cost over the fair value of net assets acquired and is amortized on a straight-line basis ranging from 18 to 40 years. Annually, as required by Accounting Principles Board ("APB") Opinion No. 17, the Company reviews its total enterprise goodwill for possible impairment, by comparing total projected undiscounted cash flows to the total carrying amount of goodwill.

OTHER ASSETS. Other assets consist primarily of the noncurrent portion of deferred income taxes and costs associated with the issuance of debt which are amortized over the life of the related debt using the effective interest method. Amortization of deferred financing costs is included in interest expense.

THIRD-PARTY REIMBURSEMENT. Net operating revenues include amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-reimbursement and other payment methods. Approximately 55% of net operating revenues for the year ended December 31, 1997, 49% for the year ended December 31, 1998, and 48% for the year ended December 31, 1999, are related to services rendered to patients covered by the Medicare and Medicaid programs. In addition, the Company is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Company for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual adjustments and reported in future periods as final settlements are determined. Adjustments related to final settlements or appeals increased revenue by an insignificant amount in each of the years ended December 31, 1997, 1998 and 1999. Net amounts due to third-party payors as of December 31, 1998 were \$19.9 million and as of December 31, 1999 were \$9.1 million and are included in accrued liabilities--other in the accompanying balance sheets. Substantially all Medicare and Medicaid cost reports are final settled through 1996.

CONCENTRATIONS OF CREDIT RISK. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare and Medicaid represent the Company's only significant concentrations of credit risk.

NET OPERATING REVENUES. Net operating revenues are recorded net of provisions for contractual adjustments of approximately \$586 million, \$829 million and \$1,157 million in 1997, 1998 and 1999, respectively. Net operating revenues are recognized when services are provided. In the ordinary course of business the Company renders services to patients who are financially unable to pay for hospital care. The value of these services to patients who are unable to pay is not material to the Company's consolidated results of operations.

PROFESSIONAL LIABILITY INSURANCE CLAIMS. The Company accrues, on a quarterly basis, for estimated losses resulting from professional liability claims to the extent they are not covered by insurance. The accrual, which includes an estimate for incurred but not reported claims, is based on historical loss

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
patterns and annual actual projections. To the extent that subsequent claims information varies from management's estimates, the liability is adjusted currently.

ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS. In accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets and related intangible assets may be impaired, the Company projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered, such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances.

INCOME TAXES. The Company accounts for income taxes under the asset and liability method, in which deferred income tax assets and liabilities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in the statement of operations during the period in which the tax rate change becomes law.

COMPREHENSIVE INCOME. In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive loss for 1997, 1998 and 1999 is equal to the net loss reported.

STOCK-BASED COMPENSATION. The Company accounts for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Compensation cost, if any, is measured as the excess of the fair value of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans; however, it allows an entity to continue to measure compensation for those plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25. The Company has elected to continue to measure compensation under the method of accounting as described above, and has adopted the disclosure requirements of SFAS No. 123.

SEGMENT REPORTING. In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which is effective for fiscal years ending after December 15, 1997. This statement requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. SFAS No. 131 allows aggregation of similar operating segments into a single operating segment if the businesses have similar economic characteristics and are considered similar under the criteria established by SFAS No. 131. The Company owns, leases and operates 46 acute care hospitals in 46 different non-urban communities. All of these hospitals have similar services, have similar types of patients, operate in a consistent manner and have similar economic and regulatory characteristics. Therefore, the Company has one reportable segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENT NOT YET ADOPTED. During 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement specifies how to report and display derivative instruments and hedging activities and is effective for fiscal years beginning after June 15, 2000. The Company is currently evaluating the impact, if any, of adopting SFAS No. 133.

PRO FORMA ADJUSTMENTS. The pro forma financial information gives effect to the use of net proceeds from the offering to repay debt of \$279.0 million, the resultant reduction of interest expense of \$21.5 million and an increase in the provision for income taxes of \$8.4 million resulting from the decrease in interest expense, as if these events had occurred on January 1, 1999.

2. LONG-TERM LEASES AND PURCHASES OF HOSPITALS

During 1997, the Company exercised a purchase option under an existing operating lease, effective in August, and acquired two hospitals through capital lease transactions, effective in January and August, respectively. The consideration for the three hospitals totaled \$46.1 million, including working capital. The consideration consisted of \$36.3 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of \$9.8 million. The entire lease obligation relating to each lease transaction was prepaid. The prepayment was included as part of the cash consideration. Licensed beds at the two hospitals acquired totaled 122 beds.

During 1998, the Company acquired, through two purchase transactions, effective in April and September, respectively, and two capital lease transactions, effective in November, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled \$218.6 million. The consideration consisted of \$169.8 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of \$48.8 million. The entire lease obligation relating to each lease transaction was prepaid. The prepayment was included as part of the cash consideration. Licensed beds at these four hospitals totaled 360.

Also, effective December 1, 1998, the Company entered into an operating agreement relating to, and purchased certain working capital accounts, primarily accounts receivable, supplies and accounts payable, of a 38 licensed bed hospital, for a cash payment of \$2.8 million. Pursuant to this agreement, upon certain conditions being met, the Company will be obligated to construct a replacement hospital and to purchase for \$0.9 million the remaining assets of the hospital. Upon completion, all rights of ownership and operations will transfer to the Company.

During 1999, the Company acquired, through three purchase transactions, effective in March, September, and November, respectively, and one capital lease transaction, effective in March, most of the assets, including working capital, of four hospitals. The consideration for the four hospitals totaled \$77.8 million. The consideration consisted of \$59.7 million in cash, which was borrowed under the acquisition loan facilities, and assumed liabilities of \$18.1 million. The entire lease obligation relating to the lease transaction was prepaid. The prepayment was included as part of the cash consideration. The Company also constructed and opened an additional hospital at a cost of \$15.3 million, which replaced a hospital we managed. Licensed beds at the four hospitals acquired totaled 477.

The foregoing acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price for acquisition transactions closed in 1999 has been determined by the Company based upon available information and is subject to obtaining final asset valuations prepared by independent appraisers, and settling amounts related to purchased working capital. Independent

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. LONG-TERM LEASES AND PURCHASES OF HOSPITALS (CONTINUED)

asset valuations are generally completed within 120 days of the date of acquisition; working capital settlements are generally made within 180 days of the date of acquisition. Adjustments to the purchase price allocation are not expected to be material.

The table below summarizes the allocations of the purchase price (including assumed liabilities) for these acquisitions (in thousands):

	1997	1998	1999
	-----	-----	-----
Current assets.....	\$ 4,309	\$ 40,680	\$15,514
Property and equipment.....	29,848	116,443	55,170
Goodwill.....	11,988	61,441	22,393

The operating results of the foregoing hospitals have been included in the consolidated statements of operations from their respective dates of acquisition. The following pro forma combined summary of operations of the Company gives effect to using historical information of the operations of the hospitals purchased in 1998 and 1999 as if the acquisitions had occurred as of January 1, 1998 (in thousands except per share data):

	YEAR ENDED DECEMBER 31,	
	-----	-----
	1998	1999
	-----	-----
Net operating revenue.....	\$1,046,568	\$1,119,664
Loss before cumulative effect of a change in accounting principle.....	(190,174)	(21,498)
Net loss.....	(189,846)	(21,498)
Net loss per share:		
Total basic and diluted.....	\$ (3.52)	\$ (0.40)

3. IMPAIRMENT OF LONG-LIVED ASSETS

In December 1998, in connection with the Company's periodic review process, it was determined that primarily as a result of adverse changes in physician relationships, undiscounted cash flows from seven of the Company's hospitals were below the carrying value of long-lived assets associated with those hospitals. Therefore, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company adjusted the carrying value of the related long-lived assets to their estimated fair value. The estimated fair values of these hospitals were based on independently prepared specific market appraisals. The impairment charge of \$164.8 million was comprised of reductions to goodwill of \$134.3 million, tangible property of \$27.1 million and identifiable intangibles of \$3.4 million.

Of the seven impaired hospitals, two are located in Georgia; two are located in Texas; one is located in Florida; one is located in Louisiana; and one is located in Kentucky. The events and circumstances leading to the impairment charge were unique to each of the hospitals.

One of our Kentucky hospitals lost its only anesthesiologist due to unexpected death and a leading surgeon due to illness. We have not been able to successfully recruit a replacement surgeon. One of our Georgia hospitals lost a key surgeon due to unexpected death and a leading specialist due to relocation to another market. We have not been able to successfully recruit replacement physicians.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. IMPAIRMENT OF LONG-LIVED ASSETS (CONTINUED)

One of our Louisiana hospitals relies heavily on foreign physicians and, following the departure of four foreign physicians from its market over a short period of time, has had difficulties replacing these physicians because of regulatory changes in recruiting foreign physicians. The skilled nursing and home health reimbursement for one of our Texas hospitals was disproportionately and adversely affected by the Balanced Budget Act of 1997. In addition, the market in which this hospital operates relies on foreign physicians that have been difficult to recruit because of regulatory changes. Our other Georgia hospitals terminated an employed specialty surgeon who was responsible for over 5% of the hospital's revenue. We have not been able to replace the surgeon. In addition, this hospital's skilled nursing reimbursement was disproportionately and adversely affected by the Balanced Budget Act of 1997. Our other Texas hospital lost market share and was excluded from several key managed care contracts caused by the combination in 1998 of two larger competing hospitals. This is our only hospital which competes with more than one hospital in its primary service area. A Florida hospital we then owned terminated discussions in 1998 with an unrelated hospital, located in a contiguous county, to build a combined replacement facility. The short and long-term success of this hospital was in our view dependent upon the combination being effected.

Generally, we have not experienced difficulty in recruiting physicians and specialists for our hospitals. However, for the four hospitals referred to above we have experienced difficulty in recruiting physicians and specialists where the number of physicians on staff is low. These four hospitals averaged 13 physicians per hospital as of December 31, 1998. The average number of physicians on the medical staff of our other hospitals was 39 physicians at that time. We continually monitor the relationships of our hospitals with their physicians and any physician recruiting requirements. We have frequent discussions with board members, chief executive officers and chief financial officers of our hospitals. We are not aware of any significant adverse relationships with physicians or any recurring physician recruitment needs that, if not resolved in a timely manner, would have a material adverse effect on our results of operations and financial position, either currently or in future periods.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAXES

The provision for (benefit from) income taxes consists of the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Current			
Federal.....	\$ 80	\$ --	\$ --
State.....	1,170	1,204	2,815
	1,250	1,204	2,815
Deferred			
Federal.....	(4,740)	(11,036)	3,163
State.....	(1,011)	(3,573)	(425)
	(5,751)	(14,609)	2,738
Total provision for (benefit from) income taxes.....	<u>\$(4,501)</u>	<u>\$(13,405)</u>	<u>\$5,553</u>

The following table reconciles the differences between the statutory federal income tax rate and the effective tax rate (in thousands):

	YEAR ENDED DECEMBER 31,					
	1997		1998		1999	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Benefit from income taxes at statutory federal rate.....	\$(12,835)	35.0%	\$(68,843)	35.0%	\$(3,933)	35.0%
State income taxes, net of federal income tax benefit.....	456	(1.2)	(1,379)	0.7	2,389	(21.3)
Non-deductible goodwill amortization.....	7,774	(21.2)	7,859	(4.0)	6,751	(60.1)
Impairment charge-- goodwill.....	--	--	41,652	(21.2)	--	--
Other.....	104	(0.3)	7,306	(3.7)	346	(3.0)
Provision for (benefit from) income taxes and effective tax rate....	<u>\$ (4,501)</u>	<u>12.3%</u>	<u>\$(13,405)</u>	<u>6.8%</u>	<u>\$ 5,553</u>	<u>(49.4)%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAXES (CONTINUED)

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws. Deferred income taxes as of December 31, consist of (in thousands):

	1998		1999	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Net operating loss and credit carryforwards.....	\$ 68,269	\$ --	\$ 76,798	\$ --
Property and equipment.....	--	28,567	--	40,020
Self-insurance liabilities.....	7,740	--	6,212	--
Intangibles.....	--	4,148	--	9,385
Other liabilities.....	2,368	--	--	1,828
Long-term debt and interest.....	--	4,476	--	4,373
Accounts receivable.....	2,173	--	5,362	--
Accrued expenses.....	9,311	--	15,975	--
Other.....	3,558	2,942	2,538	1,578
	93,419	40,133	106,885	57,184
Valuation allowance.....	(18,260)	--	(18,474)	--
Total deferred income taxes.....	\$ 75,159	\$40,133	\$ 88,411	\$57,184

Management believes that the net deferred tax assets will ultimately be realized, except as noted below. Management's conclusion is based on its estimate of future taxable income and the expected timing of temporary difference reversals. The Company has federal net operating loss carryforwards of \$150.4 million which expire from 2000 to 2019 and state net operating loss carryforwards of \$298.1 million which expire from 2000 to 2019.

The valuation allowance recognized at the date of the Acquisition (\$13.2 million) relates primarily to state net operating losses and other tax attributes. Any future decrease in this valuation allowance will be recorded as a reduction in goodwill recorded in connection with the Acquisition. The valuation allowance increased by \$2.7 million and \$0.2 million during the years ended December 31, 1998 and 1999, respectively. These increases are primarily related to net operating losses in certain state income tax jurisdictions not expected to be realized.

The Company received refunds, net of payments, of \$14 million during 1997 and paid income taxes, net of refunds received, of \$0.3 million, and \$1.4 million during 1998 and 1999, respectively.

FEDERAL INCOME TAX EXAMINATIONS. The Internal Revenue Service ("IRS") is examining the Company's filed federal income tax returns for the tax periods between December 31, 1993 and December 31, 1996. The IRS has indicated that it is considering a number of adjustments primarily involving "temporary" or timing differences. To date, a Revenue Agent's Report has not been issued in connection with the examination of these tax periods. In management's opinion, the ultimate outcome of the IRS examinations will not have a material effect on the Company's results of operations, financial condition or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	AS OF DECEMBER 31,	
	1998	1999
	-----	-----
Credit Facilities:		
Revolving Credit Loans.....	\$ 104,199	\$ 109,750
Acquisition Loans.....	202,251	138,551
Term Loans.....	394,000	624,345
Subordinated debentures.....	500,000	500,000
Taxable bonds.....	33,400	29,700
Tax-exempt bonds.....	8,000	8,000
Capital lease obligations (see Note 7).....	21,948	20,828
Other.....	4,044	3,459
	-----	-----
Total debt.....	1,267,842	1,434,633
Less current maturities.....	(21,248)	(27,029)
	-----	-----
Total long-term debt.....	\$1,246,594	\$1,407,604
	=====	=====

CREDIT FACILITIES. In connection with the Acquisition, a \$900 million credit agreement was entered into with a consortium of creditors (the "Credit Agreement"). The financing under the Credit Agreement consists of (i) a 6 1/2 year term loan facility (the "Tranche A Loan") in an aggregate principal amount equal to \$50 million, (ii) a 7 1/2 year term loan facility (the "Tranche B Loan") in an aggregate principal amount equal to \$132.5 million, (iii) an 8 1/2 year term loan facility (the "Tranche C Loan") in an aggregate principal amount equal to \$132.5 million, (iv) a 9 1/2 year term loan facility (the "Tranche D Loan") in an original aggregate principal amount equal to \$100 million and amended to an aggregate principal amount of \$350 million in March 1999 (collectively, the "Term Loans"), (v) a revolving credit facility (the "Revolving Credit Loans") in an aggregate principal amount equal to \$200 million, of which up to \$90 million may be used, to the extent available, for standby and commercial letters of credit and up to \$25 million is available to the Company pursuant to a swingline facility and (vi) a reducing acquisition loan facility (the "Acquisition Loans") in an aggregate principal amount of \$285 million, reduced to \$282.5 million in July 1999.

The Term Loans are scheduled to be paid in consecutive quarterly installments with aggregate principal payments for future years as follows (in thousands):

2000.....	\$ 20,655
2001.....	21,155
2002.....	48,905
2003.....	129,655
2004.....	169,662
2005.....	234,313

Total.....	\$624,345
	=====

Revolving Credit Loans may be made, and letters of credit may be issued, at any time during the period between July 22, 1996, the loan origination date (the "Origination Date"), and December 31,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

2002 (the "Termination Date"). No letter of credit will have an expiration date after the Termination Date. The Acquisition Loans may be made at any time during the period preceding the Termination Date.

The Acquisition Loans facility will automatically be reduced and the Acquisition Loans will be repaid to the following levels on each of the following anniversaries of the Origination Date: fourth anniversary, \$263.2 million; fifth anniversary, \$215.3 million; sixth anniversary, \$139.0 million; with payment of any remaining balance on the Termination Date.

The Company may elect that all or a portion of the borrowings under the Credit Agreement bear interest at a rate per annum equal to (a) an annual benchmark rate, which will be equal to the greatest of (i) "Prime Rate," (ii) the "Base" CD Rate plus 1% or (iii) the Federal Funds effective rate plus 50 basis points (the "ABR") or (b) the Eurodollar Rate, in each case increased by the applicable margin (the "Applicable Margin") which will vary between 1.50% and 3.75% per annum. The applicable margin on the Revolving Credit Loans, Acquisition Loans and Tranche A Loan is subject to a reduction based on achievement of certain levels of total senior indebtedness to annualized consolidated EBITDA, as defined in the Credit Agreement. To date, the Company has not achieved a level that provides for a reduction of the Applicable Margin.

Interest based on the ABR is payable on the last day of each calendar quarter and interest based on the Eurodollar Rate is payable on set maturity dates. The borrowings under the Credit Agreement bore interest at rates ranging from 7.44% to 11.25% as of December 31, 1999.

The Company is also required to pay a quarterly commitment fee at a rate which ranges from .375% to .500% based on the Eurodollar Applicable Margin for Revolving Credit Loans. This rate is applied to unused commitments under the Revolving Credit Loans and the Acquisition Loans.

The Company is also required to pay letters of credit fees at rates which vary from 1.625% to 2.625%.

All or a portion of the outstanding borrowings under the Credit Agreement may be prepaid at any time and the unutilized portion of the facility for the Revolving Credit Loans or the Acquisition Loans may be terminated, in whole or in part at the Company's option. Repaid Term Loans and permanent reductions to the Acquisition Loans and Revolving Credit Loans may not be reborrowed.

Credit Facilities generally are required to be prepaid with the net proceeds (in excess of \$20 million) of certain permitted asset sales and the issuances of debt obligations (other than certain permitted indebtedness) of the Company or any of its subsidiaries.

Generally, prepayments of Term Loans will be applied to principal payments due during the next twelve months with any excess being applied pro rata to scheduled principal payments thereafter.

The terms of the Credit Agreement include certain restrictive covenants. These covenants include restrictions on indebtedness, investments, asset sales, capital expenditures, dividends, sale and leasebacks, contingent obligations, transactions with affiliates, and fundamental change. The covenants also require maintenance of certain ratios regarding senior indebtedness, senior interest, and fixed charges. The Company was in compliance with all debt covenants at December 31, 1999.

Under an amendment dated February 24, 2000, in the event of an initial public offering of common stock, the Company is obligated to apply the first \$300 million of proceeds (net of expenses and underwriting commissions) and proceeds in excess of \$450 million first to repay the Acquisition and Revolving Credit Loans and then to reduce the Term Loans. The proceeds in excess of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM DEBT (CONTINUED)

\$300 million and less than \$450 million may, under the terms of the Credit Agreement, be applied to repay subordinated debentures if certain financial covenants are met. In connection with any subsequent registered public offering, the Company may, under the terms of the Credit Agreement, apply the proceeds to the repayment of subordinated debentures if certain financial covenants are met.

As of December 31, 1998 and 1999, the Company had letters of credit issued, primarily in support of its Taxable Bonds and Tax-Exempt Bonds, of approximately \$55 million and \$43 million, respectively. Availability at December 31, 1998 and 1999 under the Revolving Credit Loans facility was approximately \$41 million and \$47 million and under the Acquisition Loans facility was approximately \$83 million and \$144 million, respectively.

SUBORDINATED DEBENTURES. In connection with the Acquisition, the Company issued its subordinated debentures to an affiliate of Forstmann Little & Co. for \$500 million in cash. The debentures are a general senior subordinated obligation of the Company, are not subject to mandatory redemption and mature in three equal annual installments beginning June 30, 2007, with the final payment due on June 30, 2009. The debentures bear interest at a fixed rate of 7.50% which is payable semi-annually in January and July. Total interest expense for the debentures was \$37.5 million for each of the years ended December 31, 1997, 1998 and 1999.

TAXABLE BONDS AND TAX-EXEMPT BONDS. Taxable Bonds bear interest at a floating rate which averaged 5.73% and 5.29% during 1998 and 1999, respectively. These bonds are subject to mandatory annual redemptions with the final payment of \$17.4 million due on October 1, 2003. Tax-Exempt Bonds bear interest at floating rates which averaged 3.58% and 3.36% during 1998 and 1999, respectively. These bonds are not subject to mandatory annual redemptions under the bond provisions and are due in 2010. Taxable Bonds and Tax-Exempt Bonds are both guaranteed by letters of credit

OTHER DEBT. As of December 31, 1999, other debt consisted primarily of an industrial revenue bond and other obligations maturing in various installments through 2014.

As of December 31, 1999, the scheduled maturities of long-term debt outstanding including capital leases for each of the next five years and thereafter are as follows (in thousands):

2000.....	\$ 27,029
2001.....	27,107
2002.....	54,495
2003.....	150,010
2004.....	170,188
Thereafter.....	1,005,804

	\$1,434,633
	=====

The Company paid interest of \$87 million, \$101 million and \$118 million on borrowings during the years ended December 31, 1997, 1998 and 1999, respectively.

6. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Company using available market information as of December 31, 1998 and 1999, and valuation methodologies considered appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimates presented are not necessarily indicative of amounts the Company could realize in a current market exchange (in thousands):

	AS OF DECEMBER 31,			
	1998		1999	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Assets:				
Cash and cash equivalents.....	\$ 6,719	\$ 6,719	\$ 4,282	\$ 4,282
Liabilities:				
Credit facilities.....	700,450	692,045	872,646	862,174
Taxable Bonds.....	33,400	33,400	29,700	29,700
Tax-exempt Bonds.....	8,000	8,000	8,000	8,000

Cash and cash equivalents: The carrying amount approximates fair value due to the short term maturity of these instruments (less than three months).

Credit facilities: Estimated fair value is based on communications with the Company's bankers regarding relevant pricing for trading activity among the Company's lending institutions.

Taxable and Tax-exempt Bonds: The carrying amount approximates fair value as a result of the weekly interest rate reset feature of these publically traded instruments.

The Company believes that it is not practicable to estimate the fair value of the subordinated debentures because of (i) the fact that the subordinated debentures were issued in connection with the issuance of the original equity of the Company at the date of Acquisition as an investment unit, (ii) the related party nature of the subordinated debentures, (iii) the lack of comparable securities, and (iv) the lack of a credit rating of the Company by an established rating agency.

7. LEASES

The Company leases hospitals, medical office buildings, and certain equipment under capital and operating lease agreements. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs. Commitments relating to noncancellable operating and capital leases for each of the next five years and thereafter are as follows (in thousands):

YEAR ENDED DECEMBER 31,	OPERATING	CAPITAL
2000.....	\$16,306	\$ 3,140
2001.....	14,237	4,110
2002.....	11,332	3,504
2003.....	8,968	2,959
2004.....	8,408	2,600
Thereafter.....	20,769	27,525
Total minimum future payments.....	\$80,020	43,838
Less debt discounts.....		(23,010)
Less current portion.....		20,828
Long-term capital lease obligations.....		\$18,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. LEASES (CONTINUED)

Assets capitalized under capital leases as reflected in the accompanying consolidated balance sheets were \$5.1 million of land and improvements, and \$39.4 million of buildings and improvements, and \$17.4 million of equipment and fixtures as of December 31, 1998 and \$5.8 million of land and improvements, \$55.7 million of buildings and improvements and \$19.2 million of equipment and fixtures as of December 31, 1999. The accumulated depreciation related to assets under capital leases was \$11.7 million and \$15.1 million as of December 31, 1998 and 1999, respectively. Depreciation of assets under capital leases is included in depreciation and amortization and amortization of debt discounts on capital lease obligations is included in interest expense in the consolidated statements of operations.

8. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code, which covers all eligible employees at its hospitals, clinics, and the corporate offices. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. This plan includes a provision for the Company to match a portion of employee contributions. The Company also provides a defined contribution welfare benefit plan for post-termination benefits to executive and middle management employees. Total expense under the 401(k) plan was \$2.2 million for each of the years ended December 31, 1997 and 1998 and \$2.9 million for the year ended December 31, 1999. Total expense under the welfare benefit plan was \$0.8 million, \$0.9 million and \$0.8 million for the years ended December 31, 1997, 1998 and 1999, respectively.

9. STOCKHOLDERS' EQUITY

Authorized capital shares of the Company include 400,000,000 shares of capital stock consisting of 300,000,000 shares of common stock and 100,000,000 shares of Preferred Stock. Each of the aforementioned classes of capital stock has a par value of \$.01 per share. Shares of Preferred Stock, of which none are outstanding as of December 31, 1999, may be issued in one or more series having such rights, preferences and other provisions as determined by the Board of Directors without approval by the holders of common stock.

Common shares held by employees are the subject of a stockholder's agreement under which each share, until vested, is subject to repurchase, upon termination of employment. Shares vest, on a cumulative basis, each year at a rate of 20% of the total shares issued beginning after the first anniversary date of the purchase. Further, under the stockholder's agreement shares of common stock held by stockholders other than FL&Co. will only be transferable together with shares transferred by FL&Co. until FL&Co.'s ownership falls below 25%.

During 1997, the Company granted options to purchase 189,944 shares of common stock to non-employee directors at an exercise price of \$9.04 per share. One-third of such options are exercisable each year on a cumulative basis beginning on the first anniversary of the date of grant and expiring ten years from the date of grant. As of December 31, 1999, 126,669 non-employee director options to purchase common stock were exercisable with a weighted average remaining contractual life of 7.47 years.

In November 1996, the Board of Directors approved an Employee Stock Option Plan (the "Plan") to provide incentives to key employees of the Company. Options to purchase up to 801,325 shares of common stock are authorized under the Plan. All options granted pursuant to the Plan are generally

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. STOCKHOLDERS' EQUITY (CONTINUED)

exercisable each year on a cumulative basis at a rate of 20% of the total number of common shares covered by the option beginning one year from the date of grant and expiring ten years from the date of grant. As of December 31, 1999, there were 218,584 shares of unissued common stock reserved for issuance under the Plan.

The options granted are "nonqualified" for tax purposes. For financial reporting purposes, the exercise price of certain option grants were considered to be below the fair value of the stock at the time of grant. The fair value was determined based on an appraisal conducted by an independent appraisal firm as of the relevant date. The aggregate differences between fair value and the exercise price is being charged to compensation expense over the relevant vesting periods. In 1999, such expense aggregated \$83,000.

A summary of the number of shares of common stock issuable upon the exercise of options under the Company's Employee Stock Option Plan for fiscal 1997, 1998 and 1999 and changes during those years is presented below:

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Outstanding at the beginning of the year.....	--	456,755	646,848
Granted.....	593,891	316,969	95,714
Exercised.....	--	--	--
Forfeited or canceled.....	(137,116)	(126,876)	(159,820)
Outstanding at the end of the year.....	456,755	646,848	582,742

Of the options outstanding as of December 31, 1997, 1998 and 1999, none, 65,976 and 155,368, respectively, were exercisable. As of December 31, 1999, the outstanding options had a weighted-average remaining contractual life of 7.84 years. All employee options outstanding as of December 31, 1999 had an exercise price of \$6.60 per share.

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value of each option granted during 1997, 1998 and 1999 were \$2.05, \$1.94, and \$4.82, respectively. In 1997 and 1998, the exercise price of options granted was the same as the fair value of the related stock. In 1999, the exercise price of options granted was less than the fair value of the related stock. The following weighted-average assumptions were used for grants in fiscal 1997, 1998 and 1999: risk-free interest rate of 6.10%, 5.14% and 5.49%; expected volatility of the Company's common stock based on peer companies in the healthcare industry of 35%, 34% and 45%, respectively; no dividend yields; and weighted-average expected life of the options of 3 years for all years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. STOCKHOLDERS' EQUITY (CONTINUED)

Had the fair value of the options granted been recognized as compensation expense on a straight-line basis over the vesting period of the grant, the Company's net loss and loss per share would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	1997	1998	1999
	-----	-----	-----
Net loss:			
As reported.....	\$(32,171)	\$(183,290)	\$(16,789)
Pro forma.....	\$(32,333)	\$(183,513)	\$(17,010)
Net loss per share:			
As reported--basic and diluted.....	\$ (0.60)	\$ (3.40)	\$ (0.31)
Pro forma--basic and diluted.....	\$ (0.60)	\$ (3.41)	\$ (0.31)

10. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share data):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
	-----	-----	-----
NUMERATOR:			
Loss before cumulative effect of a change in accounting principle....	\$ (32,171)	\$ (182,938)	\$ (16,789)
Cumulative effect of a change in accounting principle.....	--	(352)	--
Net loss available to common--basic and diluted.....	\$ (32,171)	\$ (183,290)	\$ (16,789)
	=====	=====	=====
DENOMINATOR:			
Weighted-average number of shares outstanding--basic.....	53,568,891	53,892,388	54,258,465
Effect of dilutive securities:			
none.....	--	--	--
Weighted-average number of shares outstanding--diluted.....	53,568,891	53,892,388	54,258,465
	=====	=====	=====
Dilutive securities outstanding not included in the computation of earnings (loss) per share because their effect is antidilutive:			
Non-employee director options.....	189,944	189,944	189,944
Unvested common shares.....	2,353,289	1,537,943	1,279,736
Employee options.....	456,755	646,848	582,742

11. ACCOUNTING CHANGE

In 1998, the Company adopted The American Institute of Certified Public Accountants Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," which affects the accounting for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. ACCOUNTING CHANGE (CONTINUED)

start-up costs. The change involved expensing these costs as incurred, rather than capitalizing and subsequently amortizing such costs. The cumulative effect of the change on the accumulated deficit as of the beginning of 1998 is reflected as a charge of \$0.5 million (\$0.4 million net of taxes) to 1998 earnings. The effect of the change to the new method on net loss or loss per share for both Class A and Class B in 1997, 1998 and 1999 was not material.

12. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION COMMITMENTS. As of December 31, 1999, the Company has obligations under certain hospital agreements to construct three hospitals through 2004 with an aggregate estimated construction cost of approximately \$85 million.

PROFESSIONAL LIABILITY RISKS. Substantially all of the Company's professional and general liability risks are subject to a \$0.5 million per occurrence deductible (with an annual deductible cap of \$5 million). The Company's insurance is underwritten on a "claims-made basis." The Company accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. The Company's estimated liability for the self-insured portion of professional and general liability claims was \$15.7 million and \$16.4 million as of December 31, 1998 and 1999, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a discount rate of 4.51% and 5.72% in 1998 and 1999, respectively. The discount rate is based on an estimate of the risk-free interest rate for the duration of the expected claim payments. The estimated undiscounted claims liability was \$18.3 million and \$18.9 million as of December 31, 1998 and 1999, respectively. The effect of discounting professional and general liability claims was a \$0.2 million increase in expense in 1997 and a \$0.1 million decrease to expense in both 1998 and 1999.

COMPLIANCE SETTLEMENT AND YEAR 2000 REMEDIATION COSTS. Year 2000 remediation costs totaled \$0.2 million and \$3.3 million for 1998 and 1999, respectively. In regard to compliance settlement costs, the Company initiated a voluntary review in 1997 of its inpatient medical records in order to determine the extent it may have had coding inaccuracies under certain government programs. At December 31, 1998, an estimate of the settlement was accrued based on information available and additional costs were accrued at December 31, 1999. In March 2000, the Company reached a settlement with appropriate governmental agencies pursuant to which the Company agreed to pay approximately \$31 million to settle potential liabilities related to coding inaccuracies occurring from October 1993 through September 1997.

LEGAL MATTERS. The Company is a party to legal proceedings incidental to its business. In the opinion of management, any ultimate liability with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

13. RELATED PARTY TRANSACTIONS

Notes receivable for common shares held by employees, as disclosed on the consolidated balance sheets, represent the outstanding balance of notes accepted by the Company as partial payment for the purchase of the common shares from senior management employees. These notes bear interest at 6.84%, are full recourse promissory notes and are secured by the shares to which they relate. Each of the full recourse promissory notes mature on the fifth anniversary date of the note, with accelerated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. RELATED PARTY TRANSACTIONS (CONTINUED)

maturities in case of employee termination, Company stock repurchases, or stockholder's sale of common stock. Employees have fully paid for purchases of common stock by cash or by a combination of cash and full recourse promissory notes.

In 1999, the Company purchased marketing services and materials at a cost of \$268,000 from a company owned by the spouse of one of the Company's officers.

In 1996, in connection with the Company's relocation from Houston to Nashville, the Company lent \$100,000 to one of its executives. This loan is due December 15, 2000 and bears no interest.

14. SUBSEQUENT EVENTS (UNAUDITED)

The Company currently is pursuing an initial public offering, which is expected to be completed during the second quarter of 2000. In connection with this contemplated public offering, the Company expects to effect a recapitalization immediately prior to, or simultaneously with, the closing as follows:

- each outstanding share of Class B common stock will be exchanged for .488 of a share of Class A common stock;
- each outstanding option to purchase a share of Class C common stock will be exchanged for an option to purchase .750 of a share of Class A common stock;
- the Class A common stock will be redesignated as common stock and adjusted for a stock split on a 118.7148-for-1 basis; and
- the certificate of incorporation will be amended and restated to reflect a single class of common stock, par value \$.01 per share, and increase authorized shares of common stock to 300,000,000 and preferred stock to 100,000,000.
- Vesting, repurchase and transfer provisions related to Class B and Class C common shares will not be affected by the recapitalization.

The Company is obligated in connection with an initial public offering to apply the first \$300 million of proceeds (net of expenses and underwriting commissions) and proceeds in excess of \$450 million first to repay the Revolving and Acquisition Credit Loans and then to reduce the Term Loans. The proceeds in excess of \$300 million and less than \$450 million may, under the terms of the Credit Agreement, be applied to repay subordinated debentures if certain financial covenants are met. In connection with any subsequent registered public offering, the Company may, under the terms of the Credit Agreement, apply the proceeds to the repayment of subordinated debentures if certain financial covenants are met.

All share and per share amounts have been restated to give effect to these transactions. If the value of the Company changes significantly at the time of the offering, the share and exchange amounts above will change.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS OF MARCH 31, 2000

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents.....	\$ 10,885
Patient accounts receivable, net.....	231,448
Supplies, prepaid expenses and other current assets.....	73,780
Prepaid and current deferred income taxes.....	1,688

Total current assets.....	317,801

PROPERTY AND EQUIPMENT.....	725,922
Less accumulated depreciation and amortization.....	(101,594)

Property and equipment, net.....	624,328

GOODWILL, NET.....	876,716

OTHER ASSETS, NET.....	116,885

TOTAL ASSETS.....	\$1,935,730
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Current maturities of long-term debt.....	\$ 20,955
Accounts payable.....	58,557
Compliance settlement payable.....	30,900
Interest payable.....	10,685
Accrued liabilities.....	95,921

Total current liabilities.....	217,018

LONG-TERM DEBT.....	1,463,650

OTHER LONG-TERM LIABILITIES.....	24,368

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, \$.01 par value per share, 100,000,000 shares authorized, none issued.....	--
Common stock, \$.01 par value per share, 300,000,000 shares authorized; 56,793,516 shares issued and 55,592,859 shares outstanding at March 31, 2000.....	568
Additional paid-in capital.....	483,235
Accumulated deficit.....	(244,431)
Treasury stock, at cost, 1,200,657 shares.....	(6,587)
Notes receivable for common stock.....	(1,932)
Unearned stock compensation.....	(159)

Total stockholders' equity.....	230,694

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$1,935,730
	=====

See notes to unaudited interim condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	1999	2000
	-----	-----
NET OPERATING REVENUES.....	\$ 263,004	\$ 308,651
	-----	-----
OPERATING COSTS AND EXPENSES:		
Salaries and benefits.....	101,493	120,407
Provision for bad debts.....	22,555	27,955
Supplies.....	31,746	35,979
Other operating expenses.....	49,128	57,130
Rent.....	6,112	7,099
Depreciation and amortization.....	13,033	16,380
Amortization of goodwill.....	5,677	6,168
	-----	-----
Total operating cost and expenses.....	229,744	271,118
	-----	-----
INCOME FROM OPERATIONS.....	33,260	37,533
INTEREST EXPENSE, NET.....	26,762	32,683
	-----	-----
INCOME BEFORE INCOME TAXES.....	6,498	4,850
PROVISION FOR INCOME TAXES.....	4,580	3,929
	-----	-----
NET INCOME.....	\$ 1,918	\$ 921
	=====	=====
BASIC AND DILUTED NET INCOME PER COMMON SHARE:		
Basic.....	\$ 0.04	\$ 0.02
	=====	=====
Diluted.....	\$ 0.03	\$ 0.02
	=====	=====
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic.....	54,128,085	54,369,202
	=====	=====
Diluted.....	55,607,631	55,857,980
	=====	=====
PRO FORMA INFORMATION:		
Pro forma income per share:		
Basic.....		\$ 0.06
		=====
Diluted.....		\$ 0.06
		=====
Pro forma weighted-average number of shares outstanding:		
Basic.....		73,119,202
		=====
Diluted.....		74,607,980
		=====

See notes to unaudited interim condensed consolidated financial statements.

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	----- 1999	2000 -----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income.....	\$ 1,918	\$ 921
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization.....	18,710	22,548
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Patient accounts receivable.....	(24,206)	(2,511)
Supplies, prepaid expenses and other current assets.....	2,117	(4,595)
Accounts payable, accrued liabilities and income taxes.....	472	(16,275)
Other.....	(17,871)	(5,033)
Net cash used in operating activities.....	----- (18,860)	----- (4,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of facilities, pursuant to purchase agreements.....	(44,347)	(21,392)
Purchases of property and equipment.....	(19,215)	(12,002)
Proceeds from sale of equipment.....	22	7
Increase in other assets.....	(2,603)	(5,036)
Net cash used in investing activities.....	----- (66,143)	----- (38,423)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under credit agreement.....	339,100	67,400
Repayments of long-term indebtedness.....	(249,505)	(17,429)
Net cash provided by financing activities.....	----- 89,595	----- 49,971
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	4,592	6,603
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	6,719	4,282
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	----- \$ 11,311	----- \$ 10,885

See notes to unaudited interim condensed consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements of Community Health Systems, Inc. and its subsidiaries (the "Company") as of and for the three month periods ended March 31, 1999 and March 31, 2000, have been prepared in accordance with generally accepted accounting principles. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such periods. All intercompany transactions and balances have been eliminated. The results of operations for the three months ended March 31, 2000 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2000.

Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted as permitted by the rules and regulations of the Securities and Exchange Commission, although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 1999.

The pro forma financial information gives effect to the use of net proceeds from the offering to repay debt of \$279.0 million, the resultant reduction of interest expense of \$5.7 million and an increase in the provision for income taxes of \$2.2 million resulting from the decrease in interest expense, as if these events had occurred on January 1, 2000.

2. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from the estimates.

3. PURCHASE OF HOSPITAL

Effective March 1, 2000, the Company acquired through a purchase transaction the assets and working capital of a 105 bed hospital for aggregate consideration of \$13.4 million including liabilities assumed.

4. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

	THREE MONTHS ENDED MARCH 31,	
	1999	2000
NUMERATOR:		
Net income.....	\$ 1,918	\$ 921
DENOMINATOR:		
Weighted-average number of shares outstanding--basic.....	54,128,085	54,369,202
Effect of dilutive options.....	1,479,546	1,488,778
Weighted-average number of shares outstanding--diluted.....	55,607,631	55,857,980
Basic earnings per share.....	\$ 0.04	\$ 0.02
Diluted earnings per share.....	\$ 0.03	\$ 0.02

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

5. SUBSEQUENT EVENTS

Effective April 1, 2000, the Company acquired through separate purchase transactions, the assets and working capital of two hospitals for aggregate consideration of approximately \$22.0 million. Licensed beds at these two facilities totaled 124.

The Company currently is pursuing an initial public offering, which is expected to be completed during the second quarter of 2000. In connection with this contemplated public offering, the Company expects to effect a recapitalization immediately prior to, or simultaneously with, the closing as follows:

- each outstanding share of Class B common stock will be exchanged for .488 of a share of Class A common stock;
- each outstanding option to purchase a share of Class C common stock will be exchanged for an option to purchase .750 of a share of Class A common stock;
- the Class A common stock will be redesignated as common stock and adjusted for a stock split on a 118.7148-for-1 basis;
- the certificate of incorporation will be amended and restated to reflect a single class of common stock, par value \$.01 per share, and increase authorized shares of common stock to 300,000,000 and preferred stock to 100,000,000; and
- vesting, repurchase and transfer provisions related to Class B and Class C common shares will not be affected by the recapitalization.

The Company is obligated in connection with an initial public offering to apply the first \$300 million of proceeds (net of expenses and underwriting commissions) and proceeds in excess of \$450 million first to repay the Revolving and Acquisition Credit Loans and then to reduce the Term Loans. The proceeds in excess of \$300 million and less than \$450 million may, under the terms of the Credit Agreement, be applied to repay subordinated debentures if certain financial covenants are met. In connection with any subsequent registered public offering, the Company may, under the terms of the Credit Agreement, apply the proceeds to the repayment of subordinated debentures if certain financial covenants are met.

All share and per share amounts have been restated to give effect to these transactions. If the value of the Company changes significantly at the time of the offering, the share and exchange amounts above will change.

[INSIDE BACK COVER PAGE]

[Description of artwork:
Photographs of four of our facilities:
Eastern New Mexico Medical Center,
Moberly Regional Medical Center,
Springs Memorial Hospital, and
North Okaloosa Medical Center]

Through and including 2000 (the 25(th) day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

18,750,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

MERRILL LYNCH & CO.

BANC OF AMERICA SECURITIES LLC

CHASE H&Q

CREDIT SUISSE FIRST BOSTON

GOLDMAN, SACHS & CO.

MORGAN STANLEY DEAN WITTER

, 2000

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED MAY 17, 2000

PROSPECTUS

18,750,000 SHARES

[LOGO]

COMMON STOCK

This is Community Health Systems, Inc.'s initial public offering. We are selling all of the shares. The international managers are offering 2,812,500 shares outside the U.S. and Canada and the U.S. underwriters are offering 15,937,500 shares in the U.S. and Canada.

We expect the public offering price to be between \$15.00 and \$17.00 per share. Currently, no public market exists for the shares. After pricing of the offering, the shares will trade on the New York Stock Exchange under the symbol "CYH."

INVESTING IN THE COMMON STOCK INVOLVES RISKS WHICH ARE DESCRIBED IN THE "RISK FACTORS" SECTION BEGINNING ON PAGE 7 OF THIS PROSPECTUS.

	PER SHARE	TOTAL
	-----	-----
Public offering price.....	\$	\$
Underwriting discount.....	\$	\$
Proceeds before expenses to Community Health Systems.....	\$	\$

The international managers may also purchase up to an additional 421,875 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments. The U.S. underwriters may similarly purchase up to an additional 2,390,625 shares from us.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2000.

MERRILL LYNCH INTERNATIONAL

BANK OF AMERICA INTERNATIONAL LIMITED

CHASE H&Q

CREDIT SUISSE FIRST BOSTON

GOLDMAN SACHS INTERNATIONAL

MORGAN STANLEY DEAN WITTER

The date of this prospectus is , 2000.

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UNDERWRITING

We intend to offer the shares outside the U.S. and Canada through the international managers and in the U.S. and Canada through the U.S. underwriters. Merrill Lynch International, Bank of America International Limited, Chase Manhattan International Limited, Credit Suisse First Boston (Europe) Limited, Goldman Sachs International, and Morgan Stanley & Co. International Limited are acting as lead managers for the international managers named below. Subject to the terms and conditions described in an international purchase agreement between us and the international managers, and concurrently with the sale of 15,937,500 shares to the U.S. underwriters, we have agreed to sell to the international managers, and the international managers severally have agreed to purchase from us, the number of shares listed opposite their names below.

INTERNATIONAL MANAGER -----	NUMBER OF SHARES -----
Merrill Lynch International.....	
Bank of America International Limited.....	
Chase Manhattan International Limited.....	
Credit Suisse First Boston (Europe) Limited.....	
Goldman Sachs International.....	
Morgan Stanley & Co. International Limited.....	

Total.....	2,812,500 =====

We have also entered into a U.S. purchase agreement with the U.S. underwriters for sale of the shares in the U.S. and Canada for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co., and Morgan Stanley & Co. Incorporated are acting as U.S. representatives. Subject to the terms and conditions in the U.S. purchase agreement, and concurrently with the sale of 2,812,500 shares to the pursuant to the international purchase agreement, we have agreed to sell to the U.S. underwriters, and U.S. underwriters severally have agreed to purchase 15,937,500 shares from us. The initial public offering price per share and the total underwriting discount per share are identical under the international purchase agreement and the U.S. purchase agreement.

The international managers and the U.S. underwriters have agreed to purchase all of the shares sold under the international and U.S. purchase agreements if any of these shares are purchased. If an underwriter defaults, the international purchase agreements provide that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreements may be terminated. The closings for the sale of shares to be purchased by the international managers and the U.S. underwriters are conditioned on one another.

We have agreed to indemnify the international managers and the U.S. underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the international managers and U.S. underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as, and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreements, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

COMMISSIONS AND DISCOUNTS

The lead managers have advised us that the international managers propose initially to offer the shares to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of \$ per share. The international managers may allow, and the dealers may reallow, a discount not in excess of \$ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount, and proceeds before our expenses. The information assumes either no exercise or full exercise by the international managers and the U.S. underwriters of their over-allotment options.

	PER SHARE	WITHOUT OPTION	WITH OPTION
	-----	-----	-----
Public offering price.....	\$	\$	\$
Underwriting discount.....	\$	\$	\$
Proceeds before expenses to Community Health Systems.....	\$	\$	\$

The expenses of the offering, not including the underwriting discount, are estimated at \$ and are payable by us.

OVER-ALLOTMENT OPTION

We have granted options to the international managers to purchase up to 421,875 additional shares at the public offering price less the underwriting discount. The international managers may exercise these options for 30 days from the date of this prospectus solely to cover any over-allotments. If the international managers exercise these options, each will be obligated, subject to conditions contained in the purchase agreements, to purchase a number of additional shares proportionate to that international managers initial amount reflected in the above table.

We have also granted options to the U.S. underwriters, exercisable for 30 days from the date of this prospectus, to purchase up to 2,390,625 additional shares to cover any over-allotments on terms similar to those granted to the international managers.

INTERSYNDICATE AGREEMENT

The international managers and the U.S. underwrites have entered into an intersyndicate agreement that provides for the coordination of their activities. Under the intersyndicate agreement, the international managers and the U.S. underwriters may sell shares to each other for purposes of resale at the initial public offering price, less an amount not greater than the selling concession. Under the intersyndicate agreement, the international managers and any dealer to whom they sell shares will not offer to sell or sell shares to persons who are U.S. or Canadian persons or to persons they believe intend to resell to persons who are U.S. or Canadian persons, except in the case of transactions under the intersyndicate agreement. Similarly, the U.S. underwriters and any dealer to whom they sell shares will not offer to sell or sell shares to non-U.S. persons or non-Canadian persons or to persons they believe intend to resell to non-U.S. or non-Canadian persons, except in the case of transactions under the intersyndicate agreement.

RESERVED SHARES

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 5% of the shares offered for sale in this offering for sale to some of our directors, officers, employees, business associates, and related persons. If these persons purchase reserved shares, this will reduce the

number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

NO SALES OF SIMILAR SECURITIES

We and our executive officers and directors and all existing stockholders have agreed, with exceptions, not to sell or transfer any common stock for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly

- offer, pledge, sell, or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right, or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. This lockup provision does not limit our ability to grant options to purchase common stock under stock option plans or to issue common stock under our employee stock purchase plan.

NEW YORK STOCK EXCHANGE LISTING

The shares have been approved for listing on the New York Stock Exchange under the symbol "CYH." In order to meet the requirements for listing on that exchange, the international managers and the U.S. underwriters have undertaken to sell a minimum number of shares to a minimum number of beneficial owners as required by that exchange.

Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations among us and the U.S. representatives and lead managers. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are

- the valuation multiples of publicly traded companies that the U.S. representatives and the lead managers believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, our company and the industry in which we compete;
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and

- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

PRICE STABILIZATION, SHORT POSITIONS AND PENALTY BIDS

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the U.S. representatives and the lead managers may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix, or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the U.S. representatives and the lead managers may reduce that short position by purchasing shares in the open market. The U.S. representatives and the lead managers may also elect to reduce any short position by exercising all or part of the over-allotment option described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

The U.S. representatives and the lead managers may also impose a penalty bid on underwriters. This means that if the U.S. representatives and the lead managers purchase shares in the open market to reduce the underwriter's short position or to stabilize the price of such shares, they may reclaim the amount of the selling concession from the underwriters who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the U.S. representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

UK SELLING RESTRICTIONS

Each international manager has agreed that

- it has not offered or sold and will not offer or sell any shares of common stock to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom with the meaning of the Public Offers of Securities Regulations 1995;
- it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the common stock in, from, or otherwise involving the United Kingdom; and
- it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issuance of common stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements)(Exemptions) Order 1996 as amended by the Financial Services Act of 1986 (Investment Advertisements)(Exemptions) Order 1997 or is a person to whom such document may otherwise lawfully be issued or passed on.

NO PUBLIC OFFERING OUTSIDE THE UNITED STATES

No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of the shares of common stock, or the possession, circulation, or distribution of this prospectus or any other material relating to our company, or shares of our common stock in any jurisdiction where action for that purpose is required. Accordingly, the shares of our common stock may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering materials or advertisements in connection with the shares of common stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations or any such country or jurisdiction.

Purchasers of the shares offered by this prospectus may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price on the cover page of this prospectus.

NASD REGULATIONS

It is anticipated that more than ten percent of the proceeds of the offering will be applied to pay down debt obligations owed to affiliates of Chase Securities Inc., Bank of America International Limited, Merrill Lynch International, and Morgan Stanley & Co. International Limited. Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(c)(8). This rule requires that the public offering price of an equity security be no higher than the price recommended by a qualified independent underwriter which has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to act as qualified independent underwriter for the offering. The price of the shares will be no higher than that recommended by Merrill Lynch, Pierce, Fenner & Smith Incorporated.

OTHER RELATIONSHIPS

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. In particular, an affiliate of Chase Securities Inc. acts as an administrative agent for our credit facility and affiliates of Chase Securities Inc., Banc of America Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Morgan Stanley & Co. Incorporated are lenders under our credit facility. Michael A. Miles, our Chairman of the Board, is a director of Morgan Stanley Dean Witter and receives customary compensation therefrom.

Merrill Lynch will be facilitating Internet distribution for this offering to certain of its internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus is available on the website maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch website relating to this offering is not a part of this prospectus.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), New York, New York. Certain legal matters related to the offering will be passed upon for the underwriters by Debevoise & Plimpton, New York, New York. Fried, Frank, Harris, Shriver & Jacobson has in the past provided, and may continue to provide, legal services to Forstmann Little and its affiliates.

EXPERTS

The consolidated financial statements as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1, which includes amendments, exhibits, schedules and supplements, under the Securities Act and the rules and regulations under the Securities Act, for the registration of the common stock offered by this prospectus. Although this prospectus, which forms a part of the registration statement, contains all material information included in the registration statement, parts of the registration statement have been omitted from this prospectus as permitted by the rules and regulations of the Commission. For further information with respect to us and the common stock offered by this prospectus, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contracts or other document referred to in this prospectus are not necessarily complete and, where such contract or other document is an exhibit to the registration statement, each such statement is qualified in all respects by the provisions of such exhibit, to which reference is now made. The registration statement can be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the registration statement is publicly available through the Commission's site on the Internet's World Wide Web, located at: <http://www.sec.gov>. Following the offering, our future public filings are expected to be available for inspection at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

After the offering, we will be subject to the full informational requirements of the Securities Exchange Act. To comply with these requirements, we will file periodic reports, proxy statements and other information with the Commission.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different information you should not rely on it. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or of any sale of common stock. Our business, financial condition, results of operations, and prospects may have changed since that date.

Through and including 2000 (the 25(th) day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

18,750,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

MERRILL LYNCH INTERNATIONAL
BANK OF AMERICA INTERNATIONAL LIMITED

CHASE H&Q

CREDIT SUISSE FIRST BOSTON

GOLDMAN SACHS INTERNATIONAL

MORGAN STANLEY DEAN WITTER

, 2000

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the expenses expected to be incurred in connection with the issuance and distribution of common stock registered hereby, all of which expenses, except for the Securities and Exchange Commission registrant fee, the National Association of Securities Dealers, Inc. filing fee, and the New York Stock Exchange listing application fee, are estimated.

Securities and Exchange Commission registration fee.....	\$ 96,773
National Association of Securities Dealers, Inc. filing fee.....	30,500
New York Stock Exchange listing application fee.....	160,000
Printing and engraving fees and expenses.....	675,000
Legal fees and expenses.....	1,050,000
Accounting fees and expenses.....	1,350,000
Blue Sky fees and expenses.....	5,000
Transfer Agent and Registrar fees and expenses.....	20,000
Miscellaneous expenses.....	362,727

Total.....	\$3,750,000
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Certificate of Incorporation and By-Laws provide that the directors and officers of the Registrant shall be indemnified by the Registrant to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with service for or on behalf of the Registrant, except with respect to any matter that such director or officer has been adjudicated not to have acted in good faith or in the reasonable belief that his action was in the best interests of the Registrant.

The Registrant has entered into agreements to indemnify its directors and officers in addition to the indemnification provided for in the Certificate of Incorporation and By-Laws. These agreements, among other things, indemnify directors and officers of the Registrant to the fullest extent permitted by Delaware law for certain expenses (including attorneys' fees), liabilities, judgments, fines and settlement amounts incurred by such person arising out of or in connection with such person's service as a director or officer of the Registrant or an affiliate of the Registrant.

Policies of insurance are maintained by the Registrant under which its directors and officers are insured, within the limits and subject to the limitations of the policies, against certain expenses in connection with the defense of, and certain liabilities which might be imposed as a result of, actions, suits or proceedings to which they are parties by reason of being or having been such directors or officers.

The form of Underwriting Agreement filed as Exhibit 1.1 hereto provides for the indemnification of the registrant, its controlling persons, its directors and certain of its officers by the underwriters against certain liabilities, including liabilities under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

During the three years preceding the filing of this registration statement, the Registrant has not sold shares of its common stock without registration under the Securities Act of 1933, except as described below.

During 1997, the Registrant sold an aggregate of 3,631 shares of its Class B common stock to employees of the Registrant for an aggregate purchase price of \$1,310,317. During 1998, the Registrant sold an aggregate of 7,754 shares of its Class B common stock to employees of the Registrant for an aggregate purchase price of \$2,774,691.36. During 1999, the Registrant sold an aggregate of 6,733 shares of its Class B common stock to employees of the Registrant for an aggregate purchase price of \$2,654,848. These issuances were exempt from registration under the Securities Act pursuant to section 4(2) thereof because they did not involve a public offering as the shares were offered and sold only to a small group of employees.

Immediately before the closing of this offering, we will be recapitalized as follows:

- each outstanding share of Class B common stock will be exchanged for .488 of a share of Class A common stock;
- each outstanding option to purchase a share of Class C common stock will be exchanged for an option to purchase .750 of a share of Class A common stock;
- the Class A common stock will be redesignated as common stock and adjusted for a stock split on a 118.7148-for-1 basis; and
- the certificate of incorporation will be amended and restated to reflect a single class of common stock, par value \$.01 per share, and the number of authorized shares of common stock and preferred stock will be increased.

Registration under the Securities Act will not be required in respect of issuances pursuant to this recapitalization because they will be made exclusively to existing holders of our securities and will not involve any solicitation. Therefore, these issuances will be exempt from registration under the Securities Act pursuant to section 3(a)(9) of the Securities Act.

No other sales of our securities have taken place within the last three years.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

The following exhibits are filed with this registration statement.

NO.	DESCRIPTION
1.1	Form of U.S. Purchase Agreement, by and among the Registrant, CHS/Community Health Systems, Inc. and the underwriters named therein.**
1.2	Form of International Purchase Agreement, by and among the Registrant, CHS/Community Health Systems, Inc. and the underwriters named therein.**
2.1	Agreement and Plan of Merger between the Registrant, FLCH Acquisition Corp. and Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), dated June 9, 1996*
3.1	Form of Restated Certificate of Incorporation of the Registrant.*
3.2	Form of Restated By-laws of the Registrant.*

NO.	DESCRIPTION
4.1	Form of Common Stock Certificate.*
5.1	Opinion of Fried, Frank, Harris, Shriver & Jacobson.**
10.1	Form of outside director Stock Option Agreement.*
10.2	Form of Stockholder's Agreement between the Registrant and outside directors.*
10.3	Form of Employee Stockholder's Agreement.*
10.4	The Registrant's Employee Stock Option Plan and form of Stock Option Agreement.*
10.5	The Registrant's 2000 Stock Option and Award Plan.*
10.6	Form of Stockholder's Agreement between the Registrant and employees.*
10.7	Registration Rights Agreement, dated July 9, 1996, among the Registrant, FLCH Acquisition Corp., Forstmann Little & Co. Equity Partnership--V, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership--VI, L.P.*
10.8	Form of Indemnification Agreement between the Registrant and its directors and executive officers.*
10.9	Amended and Restated Credit Agreement, dated as of March 26, 1999, among Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), the Registrant, certain lenders, The Chase Manhattan Bank, as Administrative Agent, and Nationsbank, N.A. and The Bank of Nova Scotia, as Co-Agents.*
10.10	First Amendment, dated February 24, 2000, to the Amended and Restated Credit Agreement, dated as of March 26, 1999, among Community Health Systems, Inc. (now known as CHS/Community Health Systems, Inc.), the Registrant, certain lenders, The Chase Manhattan Bank, as Administrative Agent, and Nationsbank, N.A. and The Bank of Nova Scotia, as Co-Agents.*
10.11	Form of Management Rights Letter between the Registrant and the partnerships affiliated with Forstmann Little & Co.*
10.12	Form of Series A 7 1/2% Subordinated Debenture.*
10.13	Form of Series B 7 1/2% Subordinated Debenture.*
10.14	Form of Series C 7 1/2% Subordinated Debenture.*
10.15	Corporate Compliance Agreement between the Office of Inspector General of the Department of Health and Human Services and the Registrant.**
10.16	Tenet BuyPower Purchasing Assistance Agreement, dated June 13, 1997, between Community Health Systems, Inc. and Tenet HealthSystem Inc., Addendum, dated September 19, 1997 and First Amendment, dated March 15, 2000.*
10.17	The Registrant's 2000 Employee Stock Purchase Plan.*
10.18	Settlement Agreement between the United States of America, the states of Illinois, New Mexico, South Carolina, Tennessee, Texas, West Virginia and the Registrant.**
21	List of subsidiaries.*
23.1	Consent of Fried, Frank, Harris, Shriver & Jacobson (included in the opinion filed as Exhibit 5.1).**
23.2	Consent of Deloitte & Touche LLP.**

NO.	DESCRIPTION
24	Powers of Attorney.*
27	Financial Data Schedule.*

* Previously filed.

** Filed herewith.

(b) Financial Statement Schedules

Auditors' Report on Schedule

Schedule II--Valuation and Qualifying Accounts

All schedules not identified above have been omitted because they are not required, are not applicable or the information is included in the selected consolidated financial data or notes contained in this Registration Statement.

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by the director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Brentwood, State of Tennessee, on the 17th day of May, 2000.

COMMUNITY HEALTH SYSTEMS, INC.

By: /s/ WAYNE T. SMITH

 Wayne T. Smith
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 3 to the registration statement has been signed below by the following persons in the capacities indicated.

SIGNATURE	TITLE	DATE
/s/ WAYNE T. SMITH ----- Wayne T. Smith	President and Chief Executive Officer and Director (principal executive officer)	May 17, 2000
* ----- W. Larry Cash	Executive Vice President and Chief Financial Officer (principal financial officer)	May 17, 2000
* ----- T. Mark Buford	Vice President and Corporate Controller (principal accounting officer)	May 17, 2000
* ----- Sheila P. Burke	Director	May 17, 2000
* ----- Robert J. Dole	Director	May 17, 2000
* ----- J. Anthony Forstmann	Director	May 17, 2000
* ----- Nicholas C. Forstmann	Director	May 17, 2000

SIGNATURE

TITLE

DATE

*

Theodore J. Forstmann

Director

May 17, 2000

*

Dale F. Frey

Director

May 17, 2000

*

Sandra J. Horbach

Director

May 17, 2000

*

Thomas H. Lister

Director

May 17, 2000

*

Michael A. Miles

Director

May 17, 2000

*

Samuel A. Nunn

Director

May 17, 2000

*By: /s/ WAYNE T. SMITH
Wayne T. Smith
as Attorney-in-Fact

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Community Health Systems, Inc.
Brentwood, Tennessee

We have audited the consolidated financial statements of Community Health Systems, Inc. (formerly Community Health Systems Holdings Corp.) and subsidiaries as of December 31, 1998 and 1999, and for each of the three years in the period ended December 31, 1999, and have issued our report thereon dated February 25, 2000 (May , 2000 as to Notes 9, 10, 14 and a portion of Note 1) (included elsewhere in this Registration Statement). Our audits also included the consolidated financial statement schedule listed in Item 16 of this Registration Statement. The consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the consolidated financial statement schedule, when considered in relation to the basic consolidated financial statement taken as a whole, presents fairly in all material respects the information set forth therein.

Nashville, Tennessee
February 25, 2000 (May , 2000 as to Notes 9, 10, 14 and a portion of Note 1)

The foregoing Report on Schedule is in the form which will be furnished by Deloitte & Touche LLP upon completion of the recapitalization and exchange described in Note 14 to the consolidated financial statements and assuming that from December 31, 1999 to the date of such completion no other material events have occurred that would affect the accompanying consolidated financial statements or required disclosures therein.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
February 25, 2000

COMMUNITY HEALTH SYSTEMS, INC. AND SUBSIDIARIES
 SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
 (IN THOUSANDS)

DESCRIPTION -----	BALANCE AT BEGINNING OF YEAR -----	CHARGED TO COSTS AND EXPENSES -----	WRITE-OFFS -----	BALANCE AT END OF YEAR -----
Year ended December 31, 1999 allowance for doubtful accounts.....	\$ 28,771	\$ 95,149	\$ (89,421)	\$ 34,499
Year ended December 31, 1998 allowance for doubtful accounts.....	20,873	69,005	(61,107)	28,771
Year ended December 31, 1997 allowance for doubtful accounts.....	33,200	57,376	(69,703)	20,873

EXHIBIT INDEX

NO.	DESCRIPTION	PAGE
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3.1	Form of Restated Certificate of Incorporation of the Registrant*	
3.2	Form of Restated By-laws of the Registrant*	
4.1	Form of Common Stock Certificate.*	
5.1	Opinion of Fried, Frank, Harris, Shriver & Jacobson.**	
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10.17	The Registrant's 2000 Employee Stock Purchase Plan.*	
10.18	Settlement Agreement between the United States of America, the states of Illinois, New Mexico, South Carolina, Tennessee, Texas, West Virginia and the Registrant.**	
21	List of subsidiaries.*	
23.1	Consent of Fried, Frank, Harris, Shriver & Jacobson (included in the opinion filed as Exhibit 5.1).**	
23.2	Consent of Deloitte & Touche LLP.**	
24	Powers of Attorney.*	
27	Financial Data Schedule.*	

* Previously filed.

** Filed herewith.

COMMUNITY HEALTH SYSTEMS, INC.
(a Delaware corporation)

o Shares of Common Stock

U.S. PURCHASE AGREEMENT

Dated: o, 2000

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& Jacobson.....A-2-1
Exhibit B - Form of Lock-up Letter.....B-1-1

COMMUNITY HEALTH SYSTEMS, INC.

(a Delaware corporation)

o Shares of Common Stock

(Par Value \$.01 Per Share)

U.S. PURCHASE AGREEMENT

o, 2000

MERRILL LYNCH & CO.

Merrill Lynch, Pierce, Fenner & Smith

Incorporated

Banc of America Securities LLC

Chase Securities Inc.

Credit Suisse First Boston Corporation

Goldman, Sachs & Co.

Morgan Stanley & Co. Incorporated

as U.S. Representatives of the several U.S. Underwriters

c/o Merrill Lynch & Co.

Merrill Lynch, Pierce, Fenner & Smith

Incorporated

North Tower

World Financial Center

New York, New York 10281-1209

Ladies and Gentlemen:

Community Health Systems, Inc. (formerly known as Community Health Systems Holding Corp.), a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc. (formerly known as Community Health Systems, Inc.), a Delaware corporation ("CHS"), confirm their agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and each of the other U.S. Underwriters named in Schedule A hereto (collectively, the "U.S. Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated are acting as representatives (in such capacity, the "U.S. Representatives"), with respect to the issue and sale by the Company and the purchase by the U.S. Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$.01 per share, of the Company ("Common Stock") set forth in said Schedule A, and with respect to the grant by the Company to the U.S. Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part

of up to o additional shares of Common Stock to cover over-allotments, if any. The aforesaid o shares of Common Stock (the "Initial U.S. Securities") to be purchased by the U.S. Underwriters and all or any part of the o shares of Common Stock subject to the option described in Section 2(b) hereof (the "U.S. Option Securities") are hereinafter called, collectively, the "U.S. Securities".

It is understood that the Company and CHS are concurrently entering into an agreement dated the date hereof (the "International Purchase Agreement") providing for the offering by the Company of an aggregate of o shares of Common Stock (the "Initial International Securities") through arrangements with certain underwriters outside the United States and Canada (the "International Managers") for which Merrill Lynch International, Bank of America International Limited, Chase Securities Inc., Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited are acting as lead managers (the "Lead Managers") and the grant by the Company to the International Managers, acting severally and not jointly, of an option to purchase all or any part of the International Managers' pro rata portion of up to o additional shares of Common Stock solely to cover over-allotments, if any (the "International Option Securities" and, together with the U.S. Option Securities, the "Option Securities"). The Initial International Securities and the International Option Securities are hereinafter called the "International Securities". It is understood that the Company is not obligated to sell, and the U.S. Underwriters are not obligated to purchase, any Initial U.S. Securities unless all of the Initial International Securities are contemporaneously purchased by the International Managers.

The U.S. Underwriters and the International Managers are hereinafter collectively called the "Underwriters", the Initial U.S. Securities and the Initial International Securities are hereinafter collectively called the "Initial Securities", and the U.S. Securities and the International Securities are hereinafter collectively called the "Securities".

The Underwriters will concurrently enter into an Intersyndicate Agreement dated the date hereof (the "Intersyndicate Agreement") providing for the coordination of certain transactions among the Underwriters under the direction of Merrill Lynch (in such capacity, the "Global Coordinator").

The Company and CHS understand that the U.S. Underwriters propose to make a public offering of the U.S. Securities as soon as the U.S. Representatives deem advisable after this Agreement has been executed and delivered.

The Company, CHS and the U.S. Underwriters agree that up to ! shares of the Initial U.S. Securities to be purchased by the U.S. Underwriters and that up to ! shares of the Initial International Securities to be purchased by the International Managers (collectively, the "Reserved Securities") shall be reserved for sale by the Underwriters to some of the Company's directors, officers, employees, business associates and related persons (collectively, "Eligible Persons"), as part of the distribution of the Securities by the Underwriters, subject to the terms of this Agreement, the International Purchase Agreement, the applicable rules, regulations and

interpretations of the National Association of Securities Dealers, Inc. (the "NASD"), the 1933 Act (as defined below), the 1933 Act Regulations (as defined below) and all other applicable laws, rules and regulations. To the extent that such Reserved Securities are not orally confirmed for purchase by such Eligible Persons by the end of the first business day after the date of this Agreement, such Reserved Securities may be offered to the public as part of the public offering contemplated hereby.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-M) covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses. Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations. Two forms of prospectus are to be used in connection with the offering and sale of the Securities: one relating to the U.S. Securities (the "Form of U.S. Prospectus") and one relating to the International Securities (the "Form of International Prospectus"). The Form of International Prospectus is identical to the Form of U.S. Prospectus, except for the front cover and back cover pages and the information under the caption "Underwriting." The information included in any such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information." Each Form of U.S. Prospectus and Form of International Prospectus used before such registration statement became effective, and any prospectus that omitted the Rule 430A Information that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto at the time it became effective and including the Rule 430A Information, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final Form of U.S. Prospectus and the final Form of International Prospectus in the forms first furnished to the Underwriters for use in connection with the offering of the Securities are herein called the "U.S. Prospectus" and the "International Prospectus," respectively, and collectively, the "Prospectuses." For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the U.S. Prospectus, the International Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

Immediately prior to the consummation of the offering of the Securities, (i) each outstanding share of the Company's Class B common stock will be exchanged pursuant to the Company's certificate of incorporation for 0 shares of the Company's Class A common stock; (ii) each outstanding option to purchase a share of the Company's Class C common stock will be exchanged for an option to purchase 0 shares of the Company's Class A common stock; (iii) the

Class A common stock will be redesignated as Common Stock; (iv) the Company will effect a 1-for-1 stock split with respect to the Common Stock; and (v) the Company's certificate of incorporation will be amended and restated to reflect a single class of common stock (which is the Common Stock), and to increase the number of authorized shares of Common Stock and preferred stock (collectively, (i) through (v) are referred to as the "Recapitalization").

SECTION 1. REPRESENTATIONS AND WARRANTIES.

(a) REPRESENTATIONS AND WARRANTIES BY THE COMPANY. The Company and CHS represent and warrant to each U.S. Underwriter as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and if any U.S. Option Securities are purchased, as of each Date of Delivery referred to in Section 2(b) hereof, and agrees with each U.S. Underwriter, as follows:

(i) COMPLIANCE WITH REGISTRATION REQUIREMENTS. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with in all material respects.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any U.S. Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Prospectuses, any preliminary prospectuses and any supplement thereto or prospectus wrapper prepared in connection therewith, at their respective times of issuance and at the Closing Time, complied and will comply in all material respects with any applicable laws or regulations of foreign jurisdictions in which the Prospectuses and such preliminary prospectuses, as amended or supplemented, if applicable, are distributed in connection with the offer and sale of Reserved Securities. Neither of the Prospectuses nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectuses or any amendments or supplements thereto were issued and at the Closing Time (and, if any U.S. Option Securities are purchased, at each Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the U.S. Prospectus made in reliance upon and in conformity

with information furnished to the Company in writing by any U.S. Underwriter through the U.S. Representative expressly for use in the Registration Statement or the U.S. Prospectus.

Each preliminary prospectus and the prospectuses filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and each preliminary prospectus and the Prospectuses delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) INDEPENDENT ACCOUNTANTS. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) FINANCIAL STATEMENTS. The consolidated financial statements included in the Registration Statement and the Prospectuses, together with the related schedules and notes, present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company and its consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied, except as set forth in the notes to the financial statements, on a consistent basis throughout the periods involved. The supporting schedules included in the Registration Statement present fairly, in all material respects, in accordance with GAAP the information required to be stated therein. The selected consolidated financial and other data and the summary consolidated financial and other data included in the Prospectuses present fairly, in all material respects, the information shown therein and have been compiled on a basis consistent with that of the audited consolidated financial statements included in the Registration Statement. The pro forma financial information included in the Registration Statement and the Prospectuses present fairly, in all material respects, the information shown therein, and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) NO MATERIAL ADVERSE CHANGE IN BUSINESS. Since the respective dates as of which information is given in the Registration Statement and the Prospectuses, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its

subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) GOOD STANDING OF THE COMPANY. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing could not result in a Material Adverse Effect.

(vi) GOOD STANDING OF SUBSIDIARIES. (A) Each "significant subsidiary" of the Company (as such term is defined in Rule 1-02 of Regulation S-X) and CHS, Community Health Investment Corporation, CHS Professional Service Corporation and Hallmark Healthcare Corporation and each other subsidiary which is a hospital holding company or an operating hospital (each a "Subsidiary" and, collectively, the "Subsidiaries") has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed in Exhibit 21 to the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity and none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary. The only subsidiaries of the Company are (a) the subsidiaries listed on Exhibit 21 to the Registration Statement and (b) certain other subsidiaries which, considered in the aggregate as a single Subsidiary, do not constitute a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X.

(B) Except to the extent disclosed in Exhibit 21 to the Registration Statement, each of the hospitals described in the Prospectuses as owned or leased by the Company is owned or leased and operated by a Subsidiary of which the Company directly or indirectly owns 100% of the outstanding ownership interests. Except as disclosed in the Prospectuses, there are no encumbrances or restrictions on the ability of any Subsidiary (i) to pay any dividends or make any distributions on such Subsidiary's capital stock, (ii) to make any loans or

advances to, or investments in, the Company, CHS or any other Subsidiary, or (iii) to transfer any of its property or assets to the Company, CHS or any other Subsidiary.

(vii) CAPITALIZATION. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectuses in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectuses or pursuant to the exercise of convertible securities or options referred to in the Prospectuses). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any securityholder of the Company. The shares of issued and outstanding capital stock of the Company have been issued in compliance, in all material respects, with all federal and state securities laws. Except as disclosed in the Prospectuses, there are no outstanding options or warrants to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Company's capital stock or any such options, warrants, rights, convertible securities or obligations. The description of the Company's stock option and purchase plans and the options or other rights granted and exercised thereunder set forth in the Prospectuses accurately and fairly describe, in all material respects, the information required to be shown with respect to such plans, arrangements, options and rights.

(viii) AUTHORIZATION OF AGREEMENT. This Agreement and the International Purchase Agreement have been duly authorized, executed and delivered by the Company.

(ix) AUTHORIZATION AND DESCRIPTION OF SECURITIES. The Securities to be purchased by the U.S. Underwriters and the International Managers from the Company have been duly authorized for issuance and sale to the U.S. Underwriters pursuant to this Agreement and the International Managers pursuant to the International Purchase Agreement, respectively, and, when issued and delivered by the Company pursuant to this Agreement and the International Purchase Agreement, respectively, against payment of the consideration set forth herein and the International Purchase Agreement, respectively, will be validly issued, fully paid and non-assessable; the Common Stock conforms, in all material respects, to all statements relating thereto contained in the Prospectuses and such description conforms to the rights set forth in the Company's Restated Certificate of Incorporation to be in effect following this offering, no holder of the Securities will be subject to personal liability by reason of being such a holder; and the issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company.

(x) The consummation of the Recapitalization has been duly authorized by the Company's board of directors and security holders, and no other corporate proceedings on the part of the Company are needed to authorize the Recapitalization.

(xi) ABSENCE OF DEFAULTS AND CONFLICTS. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments"), except for such defaults under Agreements and Instruments that would not reasonably be expected to result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement and the International Purchase Agreement and the consummation of the transactions contemplated in this Agreement, the International Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectuses under the caption "Use of Proceeds" and the completion of the Recapitalization) and compliance by the Company and CHS with their obligations under this Agreement and the International Purchase Agreement have been duly authorized by all necessary corporate action and, after giving effect to the use of proceeds as contemplated in the Prospectuses under the caption "Use of Proceeds," do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not reasonably be expected to result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company, CHS or any of their subsidiaries or, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company, CHS or any of their subsidiaries or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company, CHS or any of their subsidiaries.

(xii) ABSENCE OF LABOR DISPUTE. No material labor dispute with the employees of the Company, CHS or any of their subsidiaries exists or, to the knowledge of the Company or CHS, is imminent, and neither the Company nor CHS is aware of any existing or imminent labor disturbance by the employees of any of their or any of their subsidiaries' principal suppliers or contractors, which would reasonably be expected to result in a Material Adverse Effect.

(xiii) ABSENCE OF PROCEEDINGS. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending (other than any sealed "qui tam" actions of which neither the

Company nor CHS has any knowledge), or, to the knowledge of the Company or CHS, threatened, against or affecting the Company, CHS or any of their subsidiaries, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which would reasonably be expected to result in a Material Adverse Effect, or which could materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement and the International Purchase Agreement or the Recapitalization, or the performance by the Company or CHS of their obligations hereunder or thereunder; the aggregate of all pending legal or governmental proceedings to which the Company, CHS or any of their subsidiaries is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, would not reasonably be expected to result in a Material Adverse Effect.

(xiv) ACCURACY OF EXHIBITS. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectuses or to be filed as exhibits to the Registration Statement which have not been so described and/or filed as required.

(xv) POSSESSION OF INTELLECTUAL PROPERTY. The Company, CHS and their subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on in all material respects the business now operated by them, and none of the Company, CHS or any of their subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which could render any Intellectual Property invalid or inadequate to protect the interest of the Company, CHS or any of their subsidiaries therein, except for such infringements or conflicts (if the subject of any unfavorable decision, ruling or finding) or invalidities or inadequacies which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xvi) ABSENCE OF FURTHER REQUIREMENTS. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company or CHS of their obligations hereunder, in connection with the offering, issuance or sale of the Securities under this Agreement and the International Purchase Agreement, the consummation of the Recapitalization or the transactions contemplated by this Agreement and the International Purchase Agreement, except (i) such as have been already obtained or as may be required under the 1933 Act or the 1933 Act Regulations and foreign or state securities or blue sky laws and (ii) such as have been obtained under the laws and regulations of jurisdictions outside the United States in which the Reserved Securities are offered.

(xvii) POSSESSION OF LICENSES AND PERMITS. The Company, CHS and their subsidiaries possess such permits, licenses, provider numbers, certificates, approvals (including, without limitation, certificate of need approvals), consents, orders, certifications (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations (collectively, "Governmental Licenses") issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them (including, without limitation, Governmental Licenses as are required (i) under such federal and state healthcare laws as are applicable to the Company, CHS and their subsidiaries and (ii) with respect to those facilities operated by the Company, CHS or any of their subsidiaries that participate in the Medicare and/or Medicaid programs, to receive reimbursement thereunder), except where the failure to poses such Government Licenses or to make such declarations and filings would not reasonably be expected to result in a Material Adverse Effect; the Company, CHS and their subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to result in a Material Adverse Effect; and none of the Company, CHS or any of their subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Effect. All of the hospitals operated by the Company, CHS and their subsidiaries are "providers of services" as defined in the Social Security Act and the regulations promulgated thereunder and are eligible to participate in the Medicare and Medicaid programs (it being understood that this representation and warranty is to the best of the Company's and CHS's knowledge with respect to the five hospitals acquired by the Company since September 1, 1999).

(xviii) ACCOUNTS RECEIVABLE. The accounts receivable of the Company, CHS and their subsidiaries have been and will continue to be adjusted to reflect material changes in the reimbursement policies of third party payors such as Medicare, Medicaid, private insurance companies, health maintenance organizations, preferred provider organizations, managed care systems and other third party payors (including, without limitation, Blue Cross plans). The accounts receivable, after giving effect to the allowance for doubtful accounts, relating to such third party payors do not and shall not materially exceed amounts the Company, CHS and their subsidiaries are entitled to receive.

(xix) COMPLIANCE WITH SOCIAL SECURITY ACT AND OTHER FEDERAL ENFORCEMENT INITIATIVES. Neither the Company and CHS nor, to the knowledge of the Company and CHS, any officers, directors or stockholders, employees or other agents of the Company, CHS or any of their subsidiaries or the hospitals operated by them, has engaged in any

activities which are prohibited under Federal Medicare and Medicaid statutes including, but not limited to, 42 U.S.C. " 1320a-7 (Program Exclusion), 1320a-7a (Civil Monetary Penalties), 1320a-7b (the Anti-kickback Statute), 42 U.S.C. ' 1395nn and 1396b (the "Stark" law, prohibiting certain self-referrals), or any other federal law, including, but not limited to, the federal TRICARE statute, 10 U.S.C. '1071 ET SEQ., the Federal Civil False Claims Act, 31 U.S.C. " 3729-32, Federal Criminal False Claims Act, 18 U.S.C. ' 287, False Statements Relating to Health Care Matters, 18 U.S.C. ' 1035, Health Care Fraud, 18 U.S.C. ' 1347, or the federal Food, Drug & Cosmetics Act, 21 U.S.C. ' 360aaa, or any regulations promulgated pursuant to such statutes, or related state or local statutes or regulations or any rules of professional conduct, including but not limited to the following: (i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any applications for any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (iii) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties) on its own behalf or on behalf of another, with intent to secure such benefit or payment fraudulently; (iv) knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind (a) in return for referring an individual to a Person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties), or (b) in return for purchasing, leasing or ordering or arranging for or recommending the purchasing, leasing or ordering of any good, facility, service, or item for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties); (v) knowingly and willfully referring an individual to a person with which they have ownership or certain other financial arrangements (where applicable federal law prohibits such referrals); and (vi) knowingly and willfully violating any enforcement initiative instituted by any governmental agency (including, without limitation, the Office of the Inspector General and the Department of Justice), except for any such activities which are specifically described in the Prospectus or which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xx) REGULATORY FILINGS. None of the Company, CHS or any of their subsidiaries or any of the hospitals operated by any of them has failed to file with applicable regulatory authorities any statement, report, information or form required by any applicable law, regulation or order, except where the failure to be so in compliance could not, individually or in the aggregate, have a Material Adverse Effect. Except as described in the

Prospectus, all such filings or submissions were in compliance with applicable laws when filed and no deficiencies have been asserted by any regulatory commission, agency or authority with respect to any such filings or submissions, except for any such failures to be in compliance or deficiencies which would not, singly or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxi) TITLE TO PROPERTY. The Company, CHS and their subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectuses or (b) do not, singly or in the aggregate, in a manner that would reasonably be expected to result in a Material Adverse Effect, affect the value of such property or interfere with the use made or proposed to be made of such property by the Company, CHS or any of their subsidiaries; and all of the leases and subleases of the Company and their subsidiaries, considered as one enterprise, and under which the Company, CHS or any of their subsidiaries holds properties described in the Prospectuses, are in full force and effect, and none of the Company, CHS or any of their subsidiaries has any notice of any claim of any sort that has been asserted by anyone adverse to the rights of the Company, CHS or any of their subsidiaries under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company, CHS or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease, except where the failure to be in full force and effect or such claim would not reasonably be expected to have a Material Adverse Effect.

(xxii) INVESTMENT COMPANY ACT. None of the Company, CHS or their subsidiaries is, and upon the issuance and sale of the Securities as herein contemplated and the application of the net proceeds therefrom as described in the Prospectuses none of them will be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xxiii) ENVIRONMENTAL LAWS. Except as described in the Registration Statement and except as would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (A) none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them is in violation of any federal, state, local or foreign statute, law, rule, regulation, standard, guide, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health or safety, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances (including, without limitation, asbestos, polychlorinated biphenyls, urea-formaldehyde insulation, petroleum or petroleum products) (collectively, "Hazardous Materials") or to

the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, release or threatened release of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company, CHS, their subsidiaries and each of the hospitals owned, leased or operated by them have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company, CHS, any of their subsidiaries or any of the hospitals owned, leased or operated by them relating to Hazardous Materials or any Environmental Laws.

(xxiv) REGISTRATION RIGHTS. Except as disclosed in the Prospectuses under the caption "Shares Eligible for Future Sale Registration Rights," there are no persons with registration rights or other similar rights to have any securities of the Company, CHS or any of their subsidiaries registered pursuant to the Registration Statement or otherwise registered by the Company or any other person under the 1933 Act.

(xxv) INSURANCE. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by them are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the healthcare industry; none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them has been refused any material insurance coverage sought or applied for since January 1, 1999; and neither the Company nor CHS has any reason to believe that it or any of the hospitals owned, leased or operated by them, will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its operations except where the failure to renew or maintain such coverage would not reasonably be expected to result in a Material Adverse Effect. The officers and directors of the Company are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as the Company believes are prudent and customary for officers= and directors= liability insurance of a public company and as the Company believes would cover claims which would reasonably be expected to be made in connection with the issuance of the Securities; and the Company has no reason to believe that it will not be able to renew its existing directors= and officers= liability insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to cover its officers and directors.

(xxvi) TAX RETURNS AND PAYMENT OF TAXES. The Company, CHS and their subsidiaries have timely filed all federal, state, local and foreign tax returns that are required to be filed or has duly requested extensions thereof and all such tax returns are

true, correct and complete, except to the extent that any failure to file or request an extension, or any incorrectness would not reasonably be expected to result in a Material Adverse Effect. The Company, CHS and their subsidiaries have timely paid all taxes shown as due on such filed tax returns (including any related assessments, fines or penalties), except to the extent that any such taxes are being contested in good faith and by appropriate proceedings, or to the extent that any failure to pay would not reasonably be expected to result in a Material Adverse Effect; and adequate charges, accruals and reserves have been provided for in the financial statements referred to in Section 1(a)(iii) above in accordance with GAAP in respect of all Federal, state, local and foreign taxes for all periods as to which the tax liability of the Company, CHS and their subsidiaries has not been finally determined or remains open to examination by applicable taxing authorities except (A) for taxes incurred after the date of the financial statements referred to in Section 1(a)(iii) or (B) where the failure to provide for such charges, accruals and reserves would not reasonably be expected to result in a Material Adverse Effect. None of the Company, CHS or their subsidiaries is a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Internal Revenue Code of 1986, as amended (the "Code").

(xxvii) NO STABILIZATION OR MANIPULATION. None of the Company, CHS or their subsidiaries or, to the best of their knowledge, any of their directors, officers or affiliates has taken or will take, directly or indirectly, any action designed to, or that could be reasonably expected to, cause or result in stabilization or manipulation of the price of the Securities in violation of Regulation o under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(xxviii) CERTAIN TRANSACTIONS. Except as disclosed in the Prospectuses, there are no outstanding loans, advances, or guarantees of indebtedness by the Company, CHS or any of their subsidiaries to or for the benefit of any of the executive officers or directors of the Company or any of the members of the families of any of them that would be required to be so disclosed under the 1933 Act, the 1933 Act Regulations or Form S-1.

(xxix) STATISTICAL AND MARKET DATA. The statistical and market-related data included in the Prospectuses are derived from sources which the Company and CHS reasonably and in good faith believe to be accurate, reasonable and reliable in all material respects and the statistical and market-related data included in the Prospectuses agrees with the sources from which it was derived in all material respects.

(xxx) ACCOUNTING AND OTHER CONTROLS. The Company has established a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions were, are and will be executed in accordance with management=s general or specific authorization; (ii) transactions were, are and will be recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets was, is and will be permitted only in accordance with a management=s general or specific authorizations; and (iv) the recorded

accountability for assets was, is and will be compared with existing assets at reasonable intervals and appropriate action was, is and will be taken with respect to any differences.

(xxxi) YEAR 2000. The Company and CHS have reviewed their operations and those of the hospitals owned, leased or operated by them to evaluate the extent to which the business or operations or any of the hospitals owned, leased or operated by them will be affected by the Year 2000 Problem. The Company does not anticipate incurring operating expenses or costs material to the financial position or results of operations of the Company and the hospitals owned, leased or operated by it in connection with the Year 2000 Problem. As a result of the aforementioned review, the Company has no reason to believe that the Year 2000 Problem would reasonably be expected to have a Material Adverse Effect. The "Year 2000 Problem" as used herein means any risk that computer hardware or software used in the receipt, transmission, processing, manipulation, storage, retrieval, retransmission or other utilization of data or in the operation of mechanical or electrical systems of any kind will not, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively as in the case of dates or time periods occurring prior to January 1, 2000.

(b) OFFICER'S CERTIFICATES. Any certificate signed by any officer of the Company, CHS or any of their subsidiaries delivered to the Global Coordinator, the U.S. Representatives or to counsel for the U.S. Underwriters shall be deemed a representation and warranty by the Company to each U.S. Underwriter as to the matters covered thereby.

SECTION 2. SALE AND DELIVERY TO U.S. UNDERWRITERS; CLOSING.

(a) INITIAL SECURITIES. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each U.S. Underwriter, severally and not jointly, and each U.S. Underwriter, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule B, the number of Initial U.S. Securities set forth in Schedule A opposite the name of such U.S. Underwriter, plus any additional number of Initial U.S. Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) OPTION SECURITIES. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the U.S. Underwriters, severally and not jointly, to purchase up to an additional 0 shares of Common Stock at the price per share set forth in Schedule B, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial U.S. Securities but not payable on the U.S. Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial U.S. Securities upon notice by the Global Coordinator to the Company setting forth the number of U.S. Option Securities as to which the several U.S. Underwriters are then exercising the option and the time and date of payment and

delivery for such U.S. Option Securities. Any such time and date of delivery for the U.S. Option Securities (a "Date of Delivery") shall be determined by the Global Coordinator, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the U.S. Option Securities, each of the U.S. Underwriters, acting severally and not jointly, will purchase that proportion of the total number of U.S. Option Securities then being purchased which the number of Initial U.S. Securities set forth in Schedule A opposite the name of such U.S. Underwriter bears to the total number of Initial U.S. Securities, subject in each case to such adjustments as the Global Coordinator in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) PAYMENT. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Debevoise & Plimpton, 875 Third Avenue, New York, New York 10022, or at such other place as shall be agreed upon by the Global Coordinator and the Company, at 9:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Global Coordinator and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the U.S. Option Securities are purchased by the U.S. Underwriters, payment of the purchase price for, and delivery of certificates for, such U.S. Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Global Coordinator and the Company, on each Date of Delivery as specified in the notice from the Global Coordinator to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the U.S. Representatives for the respective accounts of the U.S. Underwriters of certificates for the U.S. Securities to be purchased by them. It is understood that each U.S. Underwriter has authorized the U.S. Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial U.S. Securities and the U.S. Option Securities, if any, which it has agreed to purchase. Merrill Lynch, individually and not as representative of the U.S. Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial U.S. Securities or the U.S. Option Securities, if any, to be purchased by any U.S. Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such U.S. Underwriter from its obligations hereunder.

(d) DENOMINATIONS; REGISTRATION. Certificates for the Initial U.S. Securities and the U.S. Option Securities, if any, shall be in such denominations and registered in such names as the U.S. Representatives may request in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be. The certificates for the Initial U.S. Securities and the U.S. Option Securities, if any, will be made available for examination and

packaging by the U.S. Representatives in The City of New York not later than 10:00 A.M. (Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

(e) APPOINTMENT OF QUALIFIED INDEPENDENT UNDERWRITER. The Company hereby confirms its engagement of Merrill Lynch as, and Merrill Lynch hereby confirms its agreement with the Company to render services as, a "qualified independent underwriter" within the meaning of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. with respect to the offering and sale of the U.S. Securities. Merrill Lynch, solely in its capacity as qualified independent underwriter and not otherwise, is referred to herein as the "Independent Underwriter".

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with each U.S. Underwriter as follows:

(a) COMPLIANCE WITH SECURITIES REGULATIONS AND COMMISSION REQUESTS. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A and will notify the Global Coordinator immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectuses or any amended Prospectuses shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectuses or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) FILING OF AMENDMENTS. The Company will give the Global Coordinator notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectuses, will furnish the Global Coordinator with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Global Coordinator or counsel for the U.S. Underwriters shall reasonably object.

(c) DELIVERY OF REGISTRATION STATEMENTS. The Company has furnished or will deliver to the U.S. Representatives and counsel for the U.S. Underwriters, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and signed copies of all consents and certificates of experts, and will also deliver to the U.S. Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the U.S. Underwriters. The copies of the Registration Statement and each amendment thereto furnished to the U.S. Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) DELIVERY OF PROSPECTUSES. The Company has delivered to each U.S. Underwriter, without charge, as many copies of each preliminary prospectus as such U.S. Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each U.S. Underwriter, without charge, during the period when the U.S. Prospectus is required to be delivered under the 1933 Act or the 1934 Act, such number of copies of the U.S. Prospectus (as amended or supplemented) as such U.S. Underwriter may reasonably request. The U.S. Prospectus and any amendments or supplements thereto furnished to the U.S. Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) CONTINUED COMPLIANCE WITH SECURITIES LAWS. The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement, the International Purchase Agreement and in the Prospectuses. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the U.S. Underwriters or for the Company, to amend the Registration Statement or amend or supplement any Prospectus in order that the Prospectuses will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement any Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectuses comply with such requirements, and the Company will furnish to the U.S. Underwriters such number of copies of such amendment or supplement as the U.S. Underwriters may reasonably request.

(f) BLUE SKY QUALIFICATIONS. The Company will use its best efforts, in cooperation with the U.S. Underwriters, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Global Coordinator may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification of the Securities in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) RULE 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) USE OF PROCEEDS. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectuses under "Use of Proceeds".

(i) LISTING. The Company will use its best efforts to effect and maintain the quotation of the Common Stock (including the Securities) on the New York Stock Exchange.

(j) RESTRICTION ON SALE OF SECURITIES. During a period of 180 days from the date of the Prospectuses, the Company will not, without the prior written consent of the Global Coordinator, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder or under the International Purchase Agreement, (B) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectuses, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to employee

benefit plans of the Company referred to in the Prospectuses, (D) any shares of Common Stock issued pursuant to any non-employee director stock plan or dividend reinvestment plan, or (E) the issuance by the Company of shares of Common Stock pursuant to the Recapitalization.

(k) REPORTING REQUIREMENTS. The Company, during the period when the Prospectuses are required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(l) COMPLIANCE WITH NASD RULES. The Company hereby agrees that it will ensure that the Reserved Securities will be restricted as required by the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of this Agreement. The Underwriters will notify the Company as to which persons will need to be so restricted. At the request of the Underwriters, the Company will direct the transfer agent to place a stop transfer restriction upon such securities for such period of time. Should the Company release, or seek to release, from such restrictions any of the Reserved Securities, the Company agrees to reimburse the Underwriters for any reasonable expenses (including, without limitation, legal expenses) they incur in connection with such release.

(m) COMPLIANCE WITH RULE 463. The Company will comply with the requirements of Rule 463 of the 1933 Act Regulations.

SECTION 4. PAYMENT OF EXPENSES. (a) EXPENSES. The Company and CHS will pay all expenses incident to the performance of their obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters and the transfer of the Securities between the U.S. Underwriters and the International Managers, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of

counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus and of the Prospectuses and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities, (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the NASD of the terms of the sale of the Securities, (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange, (xi) all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, in connection with matters related to the Reserved Securities which are designated by the Company for sale to Eligible Persons who have expressed an interest in purchasing the Reserved Securities and (xii) the expenses of the Independent Underwriter.

(b) TERMINATION OF AGREEMENT. If this Agreement is terminated by the U.S. Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company and CHS shall reimburse the U.S. Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the U.S. Underwriters.

SECTION 5. CONDITIONS OF U.S. UNDERWRITERS' OBLIGATIONS. The obligations of the several U.S. Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company and CHS contained in Section 1 hereof or in certificates of any officer of the Company, CHS or any of their subsidiaries delivered pursuant to the provisions hereof, to the performance by the Company of their covenants and other obligations hereunder, and to the following further conditions:

(a) EFFECTIVENESS OF REGISTRATION STATEMENT. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the U.S. Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A).

(b) OPINION OF COUNSEL FOR THE COMPANY. At Closing Time, the U.S. Representatives shall have received the favorable opinion, dated as of Closing Time, of:

(i) Rachel A. Seifert, Vice President, Secretary and General Counsel of the Company, in form and substance reasonably satisfactory to counsel for the U.S. Underwriters, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters to the effect set forth in Exhibit A-1 hereto and to such further effect as counsel to the U.S. Underwriters may reasonably request; and

(ii) Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, in form and substance reasonably satisfactory to counsel for the U.S. Underwriters, together with signed or reproduced copies of such letter for each of the other U.S.

Underwriters to the effect set forth in Exhibit A-2 hereto and to such further effect as counsel to the U.S. Underwriters may reasonably request.

(c) OPINION OF COUNSEL FOR THE U.S. UNDERWRITERS. At Closing Time, the U.S. Representatives shall have received the favorable opinion, dated as of Closing Time, of Debevoise & Plimpton, counsel for the U.S. Underwriters, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters in form and substance reasonably satisfactory to the U.S. Underwriters.

(d) OFFICERS' CERTIFICATE. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectuses, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, CHS and their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the U.S. Representatives shall have received a certificate of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company and CHS have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and, to such person's knowledge after due inquiry, no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) ACCOUNTANT'S COMFORT LETTER. At the time of the execution of this Agreement, the U.S. Representatives shall have received from Deloitte & Touche LLP a letter, dated such date, in form and substance reasonably satisfactory to the U.S. Representatives, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectuses.

(f) BRING-DOWN COMFORT LETTER. At Closing Time, the Representatives shall have received from Deloitte & Touche LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) APPROVAL OF LISTING. At Closing Time, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(h) NO OBJECTION. The NASD has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements with respect to the Securities.

(i) LOCK-UP AGREEMENTS. At the date of this Agreement, the U.S. Representatives shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule C hereto.

(j) PURCHASE OF INITIAL INTERNATIONAL SECURITIES. Contemporaneously with the purchase by the U.S. Underwriters of the Initial U.S. Securities under this Agreement, the International Managers shall have purchased the Initial International Securities under the International Purchase Agreement.

(k) RECAPITALIZATION. Prior to the purchase of the Securities by the Underwriters, the Recapitalization shall have been consummated.

(l) CONDITIONS TO PURCHASE OF U.S. OPTION SECURITIES. In the event that the U.S. Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the U.S. Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the U.S. Representatives shall have received:

(i) OFFICERS' CERTIFICATE. A certificate, dated such Date of Delivery, of the President and Chief Executive Officer, and of the Executive Vice President and Chief Financial Officer of the Company, confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) OPINION OF COUNSEL FOR COMPANY. The favorable opinion of Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, together with the favorable opinion of Rachel A. Siefert, Vice President, Secretary and General Counsel of the Company, each in form and substance reasonably satisfactory to counsel for the U.S. Underwriters, dated such Date of Delivery, relating to the U.S. Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(b) hereof.

(iii) OPINION OF COUNSEL FOR U.S. UNDERWRITERS. The favorable opinion of Debevoise & Plimpton, counsel for the U.S. Underwriters, dated such Date of Delivery, relating to the U.S. Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) BRING-DOWN COMFORT LETTER. A letter from Deloitte & Touche LLP, in form and substance reasonably satisfactory to the U.S. Representatives and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the U.S. Representatives pursuant to Section 5(f) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(m) ADDITIONAL DOCUMENTS. At Closing Time and at each Date of Delivery, counsel for the U.S. Underwriters shall have been furnished with such documents and opinions as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be reasonably satisfactory in form and substance to the U.S. Representatives and counsel for the U.S. Underwriters.

(n) TERMINATION OF AGREEMENT. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of U.S. Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several U.S. Underwriters to purchase the relevant Option Securities, may be terminated by the U.S. Representatives by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

SECTION 6. INDEMNIFICATION.

(a) INDEMNIFICATION OF THE U.S. UNDERWRITERS. (1) The Company and CHS jointly and severally agree to indemnify and hold harmless each U.S. Underwriter and each person, if any, who controls any U.S. Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectuses (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of (A) the violation of any applicable laws or regulations of any jurisdiction where Reserved Securities have been offered and (B) any untrue statement or alleged untrue statement of a material fact included in the supplement or prospectus wrapper material distributed in any jurisdiction in connection with the reservation and sale of the Reserved Securities to employees, directors and other persons with relationships with the Company who have expressed an interest in purchasing the Reserved Securities or the omission or alleged omission therefrom of a material fact necessary to make the statements therein, when considered in conjunction with the Prospectuses or preliminary prospectuses, not misleading;

(iii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission or in connection with any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company; and

(iv) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Merrill Lynch), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission or in connection with any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof, to the extent that any such expense is not paid under (i), or (ii) or (iii) above;

PROVIDED, HOWEVER, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent (x) arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any U.S. Underwriter through the U.S. Representatives expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the U.S. Prospectus (or any amendment or supplement thereto) or (y) resulting from the fact that a court of competent jurisdiction shall have made a final, non-appealable determination that (1) the untrue statement or omission was corrected in the U.S. Prospectus, (2) that at a time sufficiently prior to the Closing Time, the Company furnished copies of the U.S. Prospectus in sufficient quantities to such Underwriter, (3) that such Underwriter failed to send or give a copy of the U.S. Prospectus to the person asserting such loss, liability, claim, damage or expense prior to the written confirmation or the sale of Securities to such person by such Underwriter as required by the 1933 Act or the 1933 Act Regulations, and (4) that the sending of the U.S. Prospectus to the person asserting such loss, liability, claim, damage or expense would have constituted a defense to the claim asserted by such person or persons.

(2) In addition to and without limitation of the Company's obligation to indemnify Merrill Lynch as an Underwriter, the Company also agrees to indemnify and hold harmless the Independent Underwriter and each person, if any, who controls the Independent Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, from and against any and all loss, liability, claim, damage and expense whatsoever, as incurred, incurred as a result of the Independent Underwriter's participation as a "qualified independent underwriter" within the meaning of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. in connection with the offering of the U.S. Securities.

(3) Insofar as this indemnity agreement may permit indemnification for liabilities under the 1933 Act of any person who is a partner of a U.S. Underwriter or who controls an underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and who, at the date of this Agreement, is a director or officer of the Company or controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, such indemnity agreement is subject to the undertaking of the Company in the Registration Statement under Item.

(b) INDEMNIFICATION OF COMPANY, DIRECTORS AND OFFICERS. Each U.S. Underwriter severally agrees to indemnify and hold harmless the Company, CHS and their respective directors, each of the officers of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a)(1) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary U.S. prospectus or the U.S. Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such U.S. Underwriter through the U.S. Representatives expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the U.S. Prospectus (or any amendment or supplement thereto).

(c) ACTIONS AGAINST PARTIES; NOTIFICATION. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a)(1) above, counsel to the indemnified parties shall be selected by Merrill Lynch, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or

related actions in the same jurisdiction arising out of the same general allegations or circumstances; provided, that, if indemnity is sought pursuant to Section 6(a)(2), then, in addition to the fees and expenses of such counsel for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one counsel (in addition to any local counsel) separate from its own counsel and that of the other indemnified parties for the Independent Underwriter in its capacity as a "qualified independent underwriter" and all persons, if any, who control the Independent Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of 1934 Act in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances if, in the reasonable judgment of the Independent Underwriter, there may exist a conflict of interest between the Independent Underwriter and the other indemnified parties. Any such separate counsel for the Independent Underwriter and such control persons of the Independent Underwriter shall be designated in writing by the Independent Underwriter. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) SETTLEMENT WITHOUT CONSENT IF FAILURE TO REIMBURSE. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(1)(iii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) INDEMNIFICATION FOR RESERVED SECURITIES. In connection with the offer and sale of the Reserved Securities, the Company and CHS jointly and severally agree, promptly upon a request, in writing, to indemnify and hold harmless the Underwriters from and against any and all losses, liabilities, claims, damages and expenses incurred by them as a result of the failure of Eligible Persons who have expressed an interest in purchasing the Reserved Securities to pay for and accept delivery of Reserved Securities which, by the end of the first business day following the date of this Agreement, were subject to a properly confirmed agreement to purchase.

SECTION 7. CONTRIBUTION. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party

shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and CHS on the one hand and the U.S. Underwriters on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and CHS on the one hand and of the U.S. Underwriters on the other hand in connection with the statements or omissions, or in connection with any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof, which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company and CHS on the one hand and the U.S. Underwriters on the other hand in connection with the offering of the U.S. Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the U.S. Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the U.S. Underwriters, in each case as set forth on the cover of the U.S. Prospectus bear to the aggregate initial public offering price of the U.S. Securities as set forth on such cover.

The relative fault of the Company, and CHS on the one hand and the U.S. Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the U.S. Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof.

The Company, CHS and the U.S. Underwriters agree that Merrill Lynch will not receive any additional benefits hereunder for serving as the Independent Underwriter in connection with the offering and sale of the U.S. Securities.

The Company, CHS and the U.S. Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the U.S. Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no U.S. Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the U.S.

Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such U.S. Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls a U.S. Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such U.S. Underwriter, and each director of the Company or CHS, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company and CHS. The U.S. Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial U.S. Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company, CHS or any of their subsidiaries submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any U.S. Underwriter or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the U.S. Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) **TERMINATION; GENERAL.** The U.S. Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the U.S. Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the U.S. Representatives, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of

Securities Dealers, Inc. or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) LIABILITIES. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. DEFAULT BY ONE OR MORE OF THE U.S. UNDERWRITERS. If one or more of the U.S. Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the U.S. Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting U.S. Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the U.S. Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of U.S. Securities to be purchased on such date, each of the non-defaulting U.S. Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting U.S. Underwriters, or

(b) if the number of Defaulted Securities exceeds 10% of the number of U.S. Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after Closing Time, the obligation of the U.S. Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery, shall terminate without liability on the part of any non-defaulting U.S. Underwriter.

No action taken pursuant to this Section shall relieve any defaulting U.S. Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which occurs after Closing Time, which does not result in a termination of the obligation of the U.S. Underwriters to purchase and the Company to sell the relevant U.S. Option Securities, as the case may be, either the U.S. Representatives or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "U.S. Underwriter" includes any person substituted for a U.S. Underwriter under this Section 10.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the U.S. Underwriters shall be directed to the U.S. Representatives at North Tower, World Financial Center, New York, New York 10281-1201, attention of Syndicate Operations, with a copy to Debevoise & Plimpton, 875 Third Avenue, New York, New York, attention of Michael W. Blair; and notices to the Company or CHS shall be directed to them at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027, attention of Rachel A. Seifert, Vice President, Secretary and General Counsel, with a copy to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, attention of Jeffrey Bagner.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the U.S. Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the U.S. Underwriters and the Company and CHS and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the U.S. Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any U.S. Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES THEREOF. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 14. EFFECT OF HEADINGS. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the U.S. Underwriters, the Company and CHS in accordance with its terms.

Very truly yours,

COMMUNITY HEALTH SYSTEMS, INC.

By _____

Name:
Title:

CHS/COMMUNITY HEALTH SYSTEMS, INC.

BY _____

Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written:

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER
& SMITH INCORPORATED
BANC OF AMERICA SECURITIES LLC
CHASE SECURITIES INC.
CREDIT SUISSE FIRST BOSTON CORPORATION
GOLDMAN, SACHS & CO.
MORGAN STANLEY & CO. INCORPORATED

BY: MERRILL LYNCH, PIERCE, FENNER
& SMITH INCORPORATED

By _____
Authorized Signatory

For themselves and as U.S. Representatives of the
other U.S. Underwriters named in Schedule A hereto.

SCHEDULE A

NAME OF U.S. UNDERWRITER

Number of
Initial U.S.
Securities

Merrill Lynch, Pierce, Fenner & Smith
 Incorporated.....
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated.....

Total.....
=====

0
=====

SCHEDULE B

COMMUNITY HEALTH SYSTEMS, INC.

o Shares of Common Stock

(Par Value \$.01 Per Share)

1. The initial public offering price per share for the Securities, determined as provided in said Section 2, shall be \$0.

2. The purchase price per share for the U.S. Securities to be paid by the several U.S. Underwriters shall be \$0, being an amount equal to the initial public offering price set forth above less \$0 per share; provided that the purchase price per share for any U.S. Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial U.S. Securities but not payable on the U.S. Option Securities.

SCHEDULE C

Sheila P. Burke
Robert J. Dole
J. Anthony Forstmann
Nicholas C. Forstmann
Theodore J. Forstmann
Dale F. Frey
Sandra A. Horbach
Thomas H. Lister
Michael A. Miles
Samuel A. Nunn
Wayne T. Smith
W. Larry Cash
John Fromhold
David Miller
Gary Newsome
Michael T. Portacci
Rachael A. Seifert
All Other Class B Stockholders

Sch C - 1

FORM OF OPINION OF COMPANY'S GENERAL COUNSEL
TO BE DELIVERED PURSUANT TO
SECTION 5(b)(i)

_____, 2000

Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
As U.S. Representatives of the several U.S. Underwriters
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Merrill Lynch International
Bank of America International Limited
Chase Securities Inc.
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
As Lead Managers of the several International Managers
c/o Merrill Lynch International
Ropemaker Place
25 Ropemaker Street
London, England EC2Y 9LY

Ladies and Gentlemen:

I am Vice President, Secretary and General Counsel of Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"). I am delivering this opinion pursuant to (i) Section 5(b)(i) of the U.S. Purchase Agreement, dated _____, 2000 (the "U.S. Purchase Agreement"), among the Company, CHS and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, as

U.S. Representatives of the several U.S. Underwriters named in Schedule A thereto, and (ii) Section 5(b)(i) of the International Purchase Agreement, dated _____, 2000 (the "International Purchase Agreement," and together with the U.S. Purchase Agreement, the "Purchase Agreements"), among the Company, CHS and Merrill Lynch International, Bank of America International Limited, Chase Securities Inc., Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited, as Lead Managers of the several International Managers named in Schedule A thereto. All capitalized terms used herein that are defined in, or by reference in, the Purchase Agreements have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on my part except to the extent otherwise expressly stated, and, except to the extent otherwise expressly stated, I express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, I have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as I have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, I have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to me as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, I have relied upon, and assume the accuracy of, the representations and warranties contained in the Purchase Agreements and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others and assume compliance on the part of all parties to the Purchase Agreements with the covenants and agreements contained therein.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, I am of the opinion that:

1. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

2. Each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties

and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

3. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and, to the best of my knowledge, is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary.

4. All descriptions in the Prospectuses of contracts and other documents to which the Company, CHS or their subsidiaries are a party are accurate in all material respects; to the best of my knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

5. None of the Company or CHS is in violation of its charter or by-laws.

6. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by any of them have all necessary permits, licenses, certificates, approvals (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations ("Governmental Licenses") (except where the failure to have such Governmental Licenses, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the business, operations or financial condition of the Company, CHS and their subsidiaries taken as a whole), to own their respective properties and to conduct their respective businesses as now being conducted.

7. No filing, consent, approval, authorization, order, registration or qualification of or with any Tennessee court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the consummation by the Company and CHS of the transactions contemplated by the Purchase Agreements, except for such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

8. There is not pending or, to my knowledge, threatened any action, suit, proceeding, inquiry or investigation to which the Company or any subsidiary is a party, or to which the property of the Company or any subsidiary is subject, before or brought by any court or governmental agency or body, domestic or foreign, which would reasonably result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the consummation of the Recapitalization, the transactions contemplated in the Purchase Agreements or the performance by the Company of its obligations thereunder; it being understood that I express no opinion with respect to any "qui tam" action as to which I have no knowledge of its pendency.

9. The statements in the Prospectuses under "Business - Legal Proceedings," "Business - Government Regulations", Business - Payment" and "Business - Compliance Program," in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

In the course of the preparation by the Company of the Registration Statement and the Prospectuses, I attended conferences with certain of the officers and representatives of the Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriter, at which the contents of the Registration Statement and the Prospectuses were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, I attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectuses were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectuses, other than as set forth in paragraph 5 above. Subject to the foregoing and on the basis of the information I gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to my attention that causes me to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectuses as of their dates contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to my attention in the course of proceedings described in the second sentence of this paragraph that causes me to believe that the Prospectuses on the date and time of delivery of this letter contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under

which they were made, not misleading. I express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectuses.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of Tennessee and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and I undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if I become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Purchase Agreements and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without my prior written consent.

Very truly yours,

Rachel A. Seifert
Vice President, Secretary
and General Counsel

FORM OF OPINION OF FRIED, FRANK,
HARRIS, SHRIVER & JACOBSON
TO BE DELIVERED PURSUANT TO
SECTION 5(b)(ii)

212-859-8136
(FAX: 212-859-8586)

_____, 2000

Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
As U.S. Representatives of the several U.S. Underwriters
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Merrill Lynch International
Bank of America International Limited
Chase Securities Inc.
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
As Lead Managers of the several International Managers
c/o Merrill Lynch International
Ropemaker Place
25 Ropemaker Street
London, England EC2Y 9LY

Ladies and Gentlemen:

We are acting as special counsel to Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"), in

connection with the underwritten public offering of _____ shares (the "Securities") of common stock, par value \$.01 per share (the "Common Stock"), of the Company. This opinion is delivered to you at the Company's request pursuant to (i) Section 5(b)(ii) of the U.S. Purchase Agreement, dated _____, 2000 (the "U.S. Purchase Agreement"), among the Company, CHS and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, as U.S. Representatives of the several U.S. Underwriters named in Schedule A thereto, and (ii) Section 5(b)(ii) of the International Purchase Agreement, dated _____, 2000 (the "International Purchase Agreement," and together with the U.S. Purchase Agreement, the "Purchase Agreements"), among the Company, CHS and Merrill Lynch International, Bank of America International Limited, Chase Securities Inc., Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited, as Lead Managers of the several International Managers named in Schedule A thereto. All capitalized terms used herein that are defined in, or by reference in, the Purchase Agreements have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on our part except to the extent otherwise expressly stated, and, except to the extent otherwise expressly stated, we express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, we have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as we have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, we have relied upon, and assume the accuracy of, the representations and warranties contained in the Purchase Agreements and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others, and assume compliance on the part of all parties to the Purchase Agreements with the covenants and agreements contained therein. Insofar as statements herein are based upon our knowledge, such phrase means and is limited to the conscious awareness of facts or other information by lawyers in this Firm who gave substantive attention to the representation of the Company and CHS in connection with the Purchase Agreements.

With respect to the opinion expressed in the second sentence of paragraph 3 below, we have relied solely on the stock transfer books of the Company. With respect to the opinions expressed in paragraphs 10 and 11 below, our opinions are limited to our review of only those laws and regulations that, in our experience, are normally applicable to transactions of the type contemplated in the Purchase Agreements. With respect to the opinion expressed in paragraph 7, we have relied solely on the oral advice of the Staff of the Securities and Exchange Commission (the "Commission") that the Commission has issued an order declaring the registration under the 1933 Act of the U.S. Securities effective and as to the absence of any stop order or any proceeding relating thereto.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, we are of the opinion that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware. CHS has been incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

2. Each of the Company and CHS has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under the Purchase Agreements.

3. The Company has an authorized capitalization as set forth in the Prospectuses under the caption "Capitalization". The outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable. None of the outstanding shares of Common Stock were issued in violation of the preemptive or other similar rights of any securityholder of the Company.

4. The Securities to be purchased by the Underwriters from the Company pursuant to the Purchase Agreements have been duly authorized for issuance and sale to the Underwriters and, when issued and delivered by the Company pursuant to the Purchase Agreements against payment of the consideration set forth in the Purchase Agreements, will be duly authorized, validly issued, fully paid and non-assessable and no holder of the Securities will be subject to personal liability under the Delaware General Corporation Law by reason of being such a holder.

5. The issuance and sale of the Securities by the Company is not subject to preemptive or other similar rights arising under (i) the Delaware General Corporation Law, (ii) the Restated Certificate of Incorporation or By-laws of the Company, or (iii) any indenture, mortgage, deed of trust, loan agreement, other agreement or instrument, or court decree or order (including, without limitation, any settlement agreement)

which has been filed as an exhibit to the Registration Statement or otherwise identified to us in a certificate provided by the Chief Financial Officer and the General Counsel of the Company as material to the Company and its subsidiaries taken as a whole (collectively, the "Identified Documents").

6. Each of the Purchase Agreements has been duly authorized, executed and delivered by the Company and CHS.

7. The Registration Statement[, including any Rule 462(b) Registration Statement,] has been declared effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or threatened by the Commission. Any required filing of the Prospectuses pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b).

8. The Registration Statement[, including any Rule 462(b) Registration Statement,] the Prospectuses[, and each amendment or supplement to the Registration Statement and the Prospectuses,] as of their respective effective or issue dates (other than the financial statements, related notes, supporting schedules and other financial data included therein or omitted therefrom, as to which we express no opinion) appeared on their face to be responsive as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

9. The statements in the Prospectuses under "Description of Capital Stock," "Description of our Indebtedness," "Shares Eligible for Future Sale" and "United States Federal Income Tax Considerations for Non-United States Holders" and the statements in the Registration Statement under Item 14, in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

10. No filing, consent, approval, authorization, order, registration or qualification of or with any United States, New York or, with respect to matters arising under the Delaware General Corporation Law, Delaware court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the consummation by the Company and CHS of the transactions contemplated by the Purchase Agreements, except the registration under the 1933 Act of the Securities and such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

11. The execution, delivery and performance by the Company and CHS with all of the provisions of the Purchase Agreements and the consummation of the transactions contemplated by the Purchase Agreements and the Recapitalization do not and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute a default or a Repayment Event under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, (i) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) the provisions of the Restated Certificate of Incorporation or By-laws of the Company, (iii) the Delaware General Corporation Law or any present law, or present regulation of any government agency or authority, of the State of New York or the United States of America known by us to be applicable to the Company or any of its subsidiaries or their respective properties or (iv) any court decree or order binding upon the Company or any of its subsidiaries or their respective properties (it being understood that with respect to the opinions in clauses (i) and (iv) of this paragraph, such opinions are limited to the Identified Documents.

12. Other than as disclosed in the Prospectuses, to our knowledge, there are no persons with registration rights or other similar rights to have any securities of the Company registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

13. The Company is not an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

14. The Recapitalization was duly authorized by the Company's Board of Directors and stockholders and has been consummated in accordance with its terms.

In the course of our engagement to represent or to advise the Company, we have not become aware of any pending legal proceeding before, or pending investigation by, any court or administrative agency or authority or any arbitration tribunal of the United States or the State of New York against or directly affecting the Company, CHS or any of their respective subsidiaries or properties which seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief in connection with or which would materially adversely affect the legality, validity or enforceability of, the Purchase Agreements, the Recapitalization or the transactions contemplated thereby. In making the foregoing statement, we have endeavored, to the extent we have believed necessary, to determine from lawyers currently in our Firm who have performed substantive legal services for the Company, whether such services involved substantive attention in the form of legal representation concerning pending legal proceedings or pending investigations of the nature referred to above. Beyond that, we have not made any

review, search or investigation of public files or records or files or records of the Company, CHS or any of their respective subsidiaries or of their transactions, or any other investigation or inquiry with respect to the foregoing statement.

In the course of the preparation by the Company of the Registration Statement and the Prospectuses, we attended conferences with certain of the officers and other representatives of the Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriters, at which the contents of the Registration Statement and the Prospectuses were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, we attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectuses were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectuses, other than as set forth in paragraph 9 above. Subject to the foregoing and on the basis of the information we gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to our attention that causes us to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectuses as of their dates contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to our attention in the course of proceedings described in the second sentence of this paragraph that causes us to believe that the Prospectuses on the date and time of delivery of this letter contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. We express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectuses.

The opinions set forth above are subject to the following qualifications:

A. With respect to the opinion expressed in paragraph 11 above: (i) we have made no independent investigation as to whether the Identified Documents identified to us in the Officer's Certificate, which are governed by the laws of any jurisdiction other than the State of New York, will be enforced as written under the laws of such jurisdiction; and (ii) we express no opinion with respect to any conflict with or any breach or violation of, or default under, any Identified Document (x) not readily ascertainable from the face of such document, (y) arising under or based upon any cross-default provisions insofar as such conflict, breach, violation or default relates to a default under a document which is not an Identified Document, or (z) arising under or based upon any covenant of a financial or numerical nature or which requires arithmetic computation.

B. We express no opinion as to the indemnity, contribution or governing law provisions of any agreement.

C. The opinions expressed above are subject to the effect of, and we express no opinions herein as to, the application of state or foreign securities or Blue Sky laws or any rules and regulations thereunder.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of New York and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and we undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Purchase Agreements and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without our prior written consent.

Very truly yours,

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON

By:

Jeffrey Bagner

[FORM OF LOCK-UP AGREEMENT FROM DIRECTORS, OFFICERS OR
OTHER STOCKHOLDERS PURSUANT TO SECTION 5(I)]

Exhibit B

MERRILL LYNCH & CO.

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
as U.S. Representatives of the several
U.S. Underwriters to be named in the
within-mentioned U.S. Purchase Agreement
Merrill Lynch International
Bank of America International Limited
Chase Manhattan International Limited
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Re: PROPOSED PUBLIC OFFERING BY COMMUNITY HEALTH SYSTEMS

Dear Sirs:

The undersigned, a stockholder and/or an officer and/or a director of Community Health Systems, Inc. a Delaware corporation (the "Company"), understands that (i) Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated propose to enter into a U.S. Purchase Agreement (the "U.S. Purchase Agreement") with the Company providing for the public offering of shares (the "Securities") of the Company's common stock, par value \$.01 per share (the "Common Stock") and (ii) Merrill Lynch International, Bank of America International Limited, Chase Manhattan International Limited, Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited propose to enter into an International Purchase Agreement with the Company providing for the public offering of the Common Stock of the Company (together with the U.S. Purchase Agreement, the "Purchase Agreements"). In recognition of the benefit that such an offering will confer upon the

undersigned as a stockholder and/or an officer and/or a director of the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees with each underwriter to be named in the Purchase Agreements that, during a period of 180 days from the date of the Purchase Agreements, the undersigned will not, without the prior written consent of Merrill Lynch, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise.

Notwithstanding the foregoing, the undersigned may transfer shares of Common Stock (i) as a BONA FIDE gift or gifts, provided that prior to such transfer the donee or donees thereof agree in writing to be bound by the restrictions set forth herein, (ii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that prior to such transfer the trustee of the trust agrees in writing to be bound by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value or (iii) if such transfer occurs by operation of law, such as rules of descent and distribution, statutes governing the effects of a merger or a qualified domestic order, provided that prior to such transfer the transferee executes an agreement stating that the transferee is receiving and holding the shares subject to the provisions of this agreement. For purposes of this Lock-Up Agreement, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin.

Very truly yours,

Signature:

Print Name:

.....

COMMUNITY HEALTH SYSTEMS, INC.
(a Delaware corporation)

__ Shares of Common Stock

INTERNATIONAL PURCHASE AGREEMENT

Dated: ____, 2000

.....

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Exhibit B - Form of Lock-up Letter.....B-1-1

COMMUNITY HEALTH SYSTEMS, INC.

(a Delaware corporation)

_ Shares of Common Stock

(Par Value \$.01 Per Share)

INTERNATIONAL PURCHASE AGREEMENT

_, 2000

MERRILL LYNCH INTERNATIONAL

Bank of America International Limited
Chase Manhattan International Limited
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
as Lead Underwriters of the several International Managers
c/o Merrill Lynch International
North Tower
World Financial Center
New York, New York 10281-1209

Ladies and Gentlemen:

Community Health Systems, Inc. (formerly known as Community Health Systems Holding Corp.), a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc. (formerly known as Community Health Systems, Inc.), a Delaware corporation ("CHS"), confirm their agreement with Merrill Lynch International and each of the other International Managers named in Schedule A hereto (collectively, the "International Managers", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch, Bank of America International Limited, Chase Securities Inc., Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited are acting as representatives (in such capacity, the "Lead Managers"), with respect to the issue and sale by the Company and the purchase by the International Managers, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$.01 per share, of the Company ("Common Stock") set forth in said Schedule A, and with respect to the grant by the Company to the International Managers, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of up to _ additional shares of Common Stock to cover over-allotments, if any. The aforesaid _ shares of Common Stock (the "Initial International Securities") to be purchased by the International Managers and all or any part of the _ shares of Common Stock subject to the option described in Section 2(b) hereof (the "International Option Securities") are hereinafter called, collectively, the "International Securities".

It is understood that the Company and CHS are concurrently entering into an agreement dated the date hereof (the "U.S. Purchase Agreement") providing for the offering by the Company of an aggregate of _ shares of Common Stock (the "Initial U.S. Securities") through arrangements with certain underwriters in the United States and Canada (the "U.S. Underwriters") for which Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated (AMerrill Lynch@), Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated are acting as representatives (the "U.S. Representatives") and the grant by the Company to the U.S. Underwriters, acting severally and not jointly, of an option to purchase all or any part of the U.S. Underwriters' pro rata portion of up to _ additional shares of Common Stock solely to cover overallocments, if any (the "U.S. Option Securities" and, together with the International Option Securities, the "Option Securities"). The Initial U.S. Securities and the U.S. Option Securities are hereinafter called the "U.S. Securities". It is understood that the Company is not obligated to sell, and the International Managers are not obligated to purchase, any Initial International Securities unless all of the Initial U.S. Securities are contemporaneously purchased by the U.S. Underwriters.

The International Managers and the U.S. Underwriters are hereinafter collectively called the "Underwriters", the Initial International Securities and the Initial U.S. Securities are hereinafter collectively called the "Initial Securities", and the International Securities and the U.S. Securities are hereinafter collectively called the "Securities".

The Underwriters will concurrently enter into an Intersyndicate Agreement dated the date hereof (the "Intersyndicate Agreement") providing for the coordination of certain transactions among the Underwriters under the direction of Merrill Lynch (in such capacity, the "Global Coordinator").

The Company and CHS understand that the International Managers propose to make a public offering of the International Securities as soon as the Lead Managers deem advisable after this Agreement has been executed and delivered.

The Company, CHS and the International Managers agree that up to _ shares of the Initial International Securities to be purchased by the International Managers and that up to _ shares of the Initial U.S. Securities to be purchased by the U.S. Underwriters (collectively, the "Reserved Securities") shall be reserved for sale by the Underwriters to some of the Company's directors, officers, employees, business associates and related persons (collectively, "Eligible Persons"), as part of the distribution of the Securities by the Underwriters, subject to the terms of this Agreement, the U.S. Purchase Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. (the "NASD"), the 1933 Act (as defined below), the 1933 Act Regulations (as defined below) and all other applicable laws, rules and regulations. To the extent that such Reserved Securities are not orally confirmed for purchase by such Eligible Persons by the end of the first business day after the date of this Agreement, such Reserved Securities may be offered to the public as part of the public offering contemplated hereby.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-_) covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses. Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations. Two forms of prospectus are to be used in connection with the offering and sale of the Securities: one relating to the International Securities (the "Form of International Prospectus") and one relating to the U.S. Securities (the "Form of U.S. Prospectus"). The Form of U.S. Prospectus is identical to the Form of International Prospectus, except for the front cover and back cover pages and the information under the caption "Underwriting." The information included in any such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information." Each Form of International Prospectus and Form of U.S. Prospectus used before such registration statement became effective, and any prospectus that omitted the Rule 430A Information that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto at the time it became effective and including the Rule 430A Information, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final Form of International Prospectus and the final Form of U.S. Prospectus in the forms first furnished to the Underwriters for use in connection with the offering of the Securities are herein called the "International Prospectus" and the "U.S. Prospectus," respectively, and collectively, the "Prospectuses." For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the International Prospectus, the U.S. Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

Immediately prior to the consummation of the offering of the Securities, (I) each outstanding share of the Company's Class B common stock will be exchanged pursuant to the Company's certificate of incorporation for _ shares of the Company's Class A common stock; (ii) each outstanding option to purchase a share of the Company's Class C common stock will be exchanged for an option to purchase _ shares of the Company's Class A common STOCK; (iii) the Class A common stock will be redesignated as Common Stock; (IV) the Company will effect a _-for-_ stock split with respect to the Common Stock; and (v) the Company's certificate of incorporation will be amended and restated to reflect a single class of common stock (which is the Common Stock), and to increase the number of authorized shares of Common Stock and preferred stock (collectively, (i) through (v) are referred to as the "Recapitalization").

SECTION 1. REPRESENTATIONS AND WARRANTIES.

(a) REPRESENTATIONS AND WARRANTIES BY THE COMPANY. The Company and CHS represent and warrant to each International Manager as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and if any International Option Securities are purchased, as of each Date of Delivery referred to in Section 2(b) hereof, and agrees with each International Manager, as follows:

(i) COMPLIANCE WITH REGISTRATION REQUIREMENTS. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with in all material respects.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any International Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Prospectuses, any preliminary prospectuses and any supplement thereto or prospectus wrapper prepared in connection therewith, at their respective times of issuance and at the Closing Time, complied and will comply in all material respects with any applicable laws or regulations of foreign jurisdictions in which the Prospectuses and such preliminary prospectuses, as amended or supplemented, if applicable, are distributed in connection with the offer and sale of Reserved Securities. Neither of the Prospectuses nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectuses or any amendments or supplements thereto were issued and at the Closing Time (and, if any International Option Securities are purchased, at each Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the International Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any International Manager through the Lead Managers expressly for use in the Registration Statement or the International Prospectus.

Each preliminary prospectus and the prospectuses filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and each preliminary prospectus and the Prospectuses delivered to the

Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) INDEPENDENT ACCOUNTANTS. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) FINANCIAL STATEMENTS. The consolidated financial statements included in the Registration Statement and the Prospectuses, together with the related schedules and notes, present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company and its consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied, except as set forth in the notes to the financial statements, on a consistent basis throughout the periods involved. The supporting schedules included in the Registration Statement present fairly, in all material respects, in accordance with GAAP the information required to be stated therein. The selected consolidated financial and other data and the summary consolidated financial and other data included in the Prospectuses present fairly, in all material respects, the information shown therein and have been compiled on a basis consistent with that of the audited consolidated financial statements included in the Registration Statement. The pro forma financial information included in the Registration Statement and the Prospectuses present fairly, in all material respects, the information shown therein, and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) NO MATERIAL ADVERSE CHANGE IN BUSINESS. Since the respective dates as of which information is given in the Registration Statement and the Prospectuses, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(v) GOOD STANDING OF THE COMPANY. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign

corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing could not result in a Material Adverse Effect.

(vi) GOOD STANDING OF SUBSIDIARIES. (A) Each "significant subsidiary" of the Company (as such term is defined in Rule 1-02 of Regulation S-X) and CHS, Community Health Investment Corporation, CHS Professional Service Corporation and Hallmark Healthcare Corporation and each other subsidiary which is a hospital holding company or an operating hospital (each a "Subsidiary" and, collectively, the "Subsidiaries") has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed in Exhibit 21 to the Registration Statement, all of the issued and outstanding capital stock of each such Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity and none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary. The only subsidiaries of the Company are (a) the subsidiaries listed on Exhibit 21 to the Registration Statement and (b) certain other subsidiaries which, considered in the aggregate as a single Subsidiary, do not constitute a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X.

(B) Except to the extent disclosed in Exhibit 21 to the Registration Statement, each of the hospitals described in the Prospectuses as owned or leased by the Company is owned or leased and operated by a Subsidiary of which the Company directly or indirectly owns 100% of the outstanding ownership interests. Except as disclosed in the Prospectuses, there are no encumbrances or restrictions on the ability of any Subsidiary (i) to pay any dividends or make any distributions on such Subsidiary's capital stock, (ii) to make any loans or advances to, or investments in, the Company, CHS or any other Subsidiary, or (iii) to transfer any of its property or assets to the Company, CHS or any other Subsidiary.

(vii) CAPITALIZATION. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectuses in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectuses or pursuant to the exercise of convertible securities or options referred to in the Prospectuses). The shares of issued and outstanding capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock of the Company was issued in violation of the

preemptive or other similar rights of any securityholder of the Company. The shares of issued and outstanding capital stock of the Company have been issued in compliance, in all material respects, with all federal and state securities laws. Except as disclosed in the Prospectuses, there are no outstanding options or warrants to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Company's capital stock or any such options, warrants, rights, convertible securities or obligations. The description of the Company's stock option and purchase plans and the options or other rights granted and exercised thereunder set forth in the Prospectuses accurately and fairly describe, in all material respects, the information required to be shown with respect to such plans, arrangements, options and rights.

(viii) AUTHORIZATION OF AGREEMENT. This Agreement and the U.S. Purchase Agreement have been duly authorized, executed and delivered by the Company.

(ix) AUTHORIZATION AND DESCRIPTION OF SECURITIES. The Securities to be purchased by the International Managers and the U.S. Underwriters from the Company have been duly authorized for issuance and sale to the International Managers pursuant to this Agreement and the U.S. Underwriters pursuant to the U.S. Purchase Agreement, respectively, and, when issued and delivered by the Company pursuant to this Agreement and the U.S. Purchase Agreement, respectively, against payment of the consideration set forth herein and the U.S. Purchase Agreement, respectively, will be validly issued, fully paid and non-assessable; the Common Stock conforms, in all material respects, to all statements relating thereto contained in the Prospectuses and such description conforms to the rights set forth in the Company's Restated Certificate of Incorporation to be in effect following this offering, no holder of the Securities will be subject to personal liability by reason of being such a holder; and the issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company.

(x) The consummation of the Recapitalization has been duly authorized by the Company's board of directors and security holders, and no other corporate proceedings on the part of the Company are needed to authorize the Recapitalization.

(xi) ABSENCE OF DEFAULTS AND CONFLICTS. Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments"), except for such defaults under Agreements and Instruments that would not reasonably be expected to result in a Material Adverse Effect; and the execution, delivery and performance of this Agreement and the U.S. Purchase Agreement and the consummation of the transactions contemplated in this Agreement, the U.S. Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds

from the sale of the Securities as described in the Prospectuses under the caption "Use of Proceeds" and the completion of the Recapitalization) and compliance by the Company and CHS with their obligations under this Agreement and the U.S. Purchase Agreement have been duly authorized by all necessary corporate action and, after giving effect to the use of proceeds as contemplated in the Prospectuses under the caption "Use of Proceeds," do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not reasonably be expected to result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company, CHS or any of their subsidiaries or, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company, CHS or any of their subsidiaries or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company, CHS or any of their subsidiaries.

(xii) ABSENCE OF LABOR DISPUTE. No material labor dispute with the employees of the Company, CHS or any of their subsidiaries exists or, to the knowledge of the Company or CHS, is imminent, and neither the Company nor CHS is aware of any existing or imminent labor disturbance by the employees of any of their or any of their subsidiaries' principal suppliers or contractors, which would reasonably be expected to result in a Material Adverse Effect.

(xiii) ABSENCE OF PROCEEDINGS. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending (other than any sealed "qui tam" actions of which neither the Company nor CHS has any knowledge), or, to the knowledge of the Company or CHS, threatened, against or affecting the Company, CHS or any of their subsidiaries, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which would reasonably be expected to result in a Material Adverse Effect, or which could materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement and the U.S. Purchase Agreement or the Recapitalization, or the performance by the Company or CHS of their obligations hereunder or thereunder; the aggregate of all pending legal or governmental proceedings to which the Company, CHS or any of their subsidiaries is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, would not reasonably be expected to result in a Material Adverse Effect.

(xiv) ACCURACY OF EXHIBITS. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectuses or to be filed as exhibits to the Registration Statement which have not been so described and/or filed as required.

(xv) POSSESSION OF INTELLECTUAL PROPERTY. The Company, CHS and their subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on in all material respects the business now operated by them, and none of the Company, CHS or any of their subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which could render any Intellectual Property invalid or inadequate to protect the interest of the Company, CHS or any of their subsidiaries therein, except for such infringements or conflicts (if the subject of any unfavorable decision, ruling or finding) or invalidities or inadequacies which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xvi) ABSENCE OF FURTHER REQUIREMENTS. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company or CHS of their obligations hereunder, in connection with the offering, issuance or sale of the Securities under this Agreement and the U.S. Purchase Agreement, the consummation of the Recapitalization or the transactions contemplated by this Agreement and the U.S. Purchase Agreement, except (i) such as have been already obtained or as may be required under the 1933 Act or the 1933 Act Regulations and foreign or state securities or blue sky laws and (ii) such as have been obtained under the laws and regulations of jurisdictions outside the United States in which the Reserved Securities are offered.

(xvii) POSSESSION OF LICENSES AND PERMITS. The Company, CHS and their subsidiaries possess such permits, licenses, provider numbers, certificates, approvals (including, without limitation, certificate of need approvals), consents, orders, certifications (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations (collectively, "Governmental Licenses") issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them (including, without limitation, Governmental Licenses as are required (i) under such federal and state healthcare laws as are applicable to the Company, CHS and their subsidiaries and (ii) with respect to those facilities operated by the Company, CHS or any of their subsidiaries that participate in the Medicare and/or Medicaid programs, to receive reimbursement thereunder), except where the failure to poses such Government Licenses or to make such declarations and filings would not reasonably be expected to result in a

Material Adverse Effect; the Company, CHS and their subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to result in a Material Adverse Effect; and none of the Company, CHS or any of their subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Effect. All of the hospitals operated by the Company, CHS and their subsidiaries are "providers of services" as defined in the Social Security Act and the regulations promulgated thereunder and are eligible to participate in the Medicare and Medicaid programs (it being understood that this representation and warranty is to the best of the Company's and CHS's knowledge with respect to the five hospitals acquired by the Company since September 1, 1999).

(xviii) ACCOUNTS RECEIVABLE. The accounts receivable of the Company, CHS and their subsidiaries have been and will continue to be adjusted to reflect material changes in the reimbursement policies of third party payors such as Medicare, Medicaid, private insurance companies, health maintenance organizations, preferred provider organizations, managed care systems and other third party payors (including, without limitation, Blue Cross plans). The accounts receivable, after giving effect to the allowance for doubtful accounts, relating to such third party payors do not and shall not materially exceed amounts the Company, CHS and their subsidiaries are entitled to receive.

(xix) COMPLIANCE WITH SOCIAL SECURITY ACT AND OTHER FEDERAL ENFORCEMENT INITIATIVES. Neither the Company and CHS nor, to the knowledge of the Company and CHS, any officers, directors or stockholders, employees or other agents of the Company, CHS or any of their subsidiaries or the hospitals operated by them, has engaged in any activities which are prohibited under Federal Medicare and Medicaid statutes including, but not limited to, 42 U.S.C. Sections 1320a-7 (Program Exclusion), 1320a-7a (Civil Monetary Penalties), 1320a-7b (the Anti-kickback Statute), 42 U.S.C. Section 1395nn and 1396b (the "Stark" law, prohibiting certain self-referrals), or any other federal law, including, but not limited to, the federal TRICARE statute, 10 U.S.C. Section 1071 ET SEQ., the Federal Civil False Claims Act, 31 U.S.C. Sections 3729-32, Federal Criminal False Claims Act, 18 U.S.C. Section 287, False Statements Relating to Health Care Matters, 18 U.S.C. Section 1035, Health Care Fraud, 18 U.S.C. Section 1347, or the federal Food, Drug & Cosmetics Act, 21 U.S.C. Section 360aaa, or any regulations promulgated pursuant to such statutes, or related state or local statutes or regulations or any rules of professional conduct, including but not limited to the following: (i) knowingly and willfully making or causing to be made a false statement or representation of a material fact in any applications for any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state

law prohibits such payments to third parties); (ii) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties); (iii) failing to disclose knowledge by a claimant of the occurrence of any event affecting the initial or continued right to any benefit or payment under the Medicare or Medicaid program or from any third party (where applicable federal or state law prohibits such payments to third parties) on its own behalf or on behalf of another, with intent to secure such benefit or payment fraudulently; (iv) knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind (a) in return for referring an individual to a Person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties), or (b) in return for purchasing, leasing or ordering or arranging for or recommending the purchasing, leasing or ordering of any good, facility, service, or item for which payment may be made in whole or in part by Medicare or Medicaid or any third party (where applicable federal or state law prohibits such payments to third parties); (v) knowingly and willfully referring an individual to a person with which they have ownership or certain other financial arrangements (where applicable federal law prohibits such referrals); and (vi) knowingly and willfully violating any enforcement initiative instituted by any governmental agency (including, without limitation, the Office of the Inspector General and the Department of Justice), except for any such activities which are specifically described in the Prospectus or which would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(xx) REGULATORY FILINGS. None of the Company, CHS or any of their subsidiaries or any of the hospitals operated by any of them has failed to file with applicable regulatory authorities any statement, report, information or form required by any applicable law, regulation or order, except where the failure to be so in compliance could not, individually or in the aggregate, have a Material Adverse Effect. Except as described in the Prospectus, all such filings or submissions were in compliance with applicable laws when filed and no deficiencies have been asserted by any regulatory commission, agency or authority with respect to any such filings or submissions, except for any such failures to be in compliance or deficiencies which would not, singly or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxi) TITLE TO PROPERTY. The Company, CHS and their subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectuses or (b) do not, singly or in the aggregate, in a manner that would reasonably be expected to result in a Material Adverse Effect, affect the value of such property or interfere with the use made or proposed to be made of such property by the Company, CHS or any of their subsidiaries; and all of the leases and subleases of the Company and their subsidiaries, considered as one enterprise, and under which the Company, CHS or any of their subsidiaries holds properties described in the Prospectuses, are in full force and effect, and none of the Company, CHS or any of their subsidiaries has any notice of any claim of any sort that has been asserted by anyone adverse to the rights

of the Company, CHS or any of their subsidiaries under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company, CHS or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease, except where the failure to be in full force and effect or such claim would not reasonably be expected to have a Material Adverse Effect.

(xxii) INVESTMENT COMPANY ACT. None of the Company, CHS or their subsidiaries is, and upon the issuance and sale of the Securities as herein contemplated and the application of the net proceeds therefrom as described in the Prospectuses none of them will be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xxiii) ENVIRONMENTAL LAWS. Except as described in the Registration Statement and except as would not, singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (A) none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them is in violation of any federal, state, local or foreign statute, law, rule, regulation, standard, guide, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health or safety, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances (including, without limitation, asbestos, polychlorinated biphenyls, urea-formaldehyde insulation, petroleum or petroleum products) (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, release or threatened release of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company, CHS, their subsidiaries and each of the hospitals owned, leased or operated by them have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company, CHS, any of their subsidiaries or any of the hospitals owned, leased or operated by them relating to Hazardous Materials or any Environmental Laws.

(xxiv) REGISTRATION RIGHTS. Except as disclosed in the Prospectuses under the caption "Shares Eligible for Future Sale Registration Rights," there are no persons with registration rights or other similar rights to have any securities of the Company, CHS or

any of their subsidiaries registered pursuant to the Registration Statement or otherwise registered by the Company or any other person under the 1933 Act.

(xxv) INSURANCE. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by them are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the healthcare industry; none of the Company, CHS, their subsidiaries or any of the hospitals owned, leased or operated by them has been refused any material insurance coverage sought or applied for since January 1, 1999; and neither the Company nor CHS has any reason to believe that it or any of the hospitals owned, leased or operated by them, will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its operations except where the failure to renew or maintain such coverage would not reasonably be expected to result in a Material Adverse Effect. The officers and directors of the Company are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as the Company believes are prudent and customary for officers' and directors' liability insurance of a public company and as the Company believes would cover claims which would reasonably be expected to be made in connection with the issuance of the Securities; and the Company has no reason to believe that it will not be able to renew its existing directors' and officers' liability insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to cover its officers and directors.

(xxvi) TAX RETURNS AND PAYMENT OF TAXES. The Company, CHS and their subsidiaries have timely filed all federal, state, local and foreign tax returns that are required to be filed or has duly requested extensions thereof and all such tax returns are true, correct and complete, except to the extent that any failure to file or request an extension, or any incorrectness would not reasonably be expected to result in a Material Adverse Effect. The Company, CHS and their subsidiaries have timely paid all taxes shown as due on such filed tax returns (including any related assessments, fines or penalties), except to the extent that any such taxes are being contested in good faith and by appropriate proceedings, or to the extent that any failure to pay would not reasonably be expected to result in a Material Adverse Effect; and adequate charges, accruals and reserves have been provided for in the financial statements referred to in Section 1(a)(iii) above in accordance with GAAP in respect of all Federal, state, local and foreign taxes for all periods as to which the tax liability of the Company, CHS and their subsidiaries has not been finally determined or remains open to examination by applicable taxing authorities except (A) for taxes incurred after the date of the financial statements referred to in Section 1(a)(iii) or (B) where the failure to provide for such charges, accruals and reserves would not reasonably be expected to result in a Material Adverse Effect. None of the Company, CHS or their subsidiaries is a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Internal Revenue Code of 1986, as amended (the "Code").

(xxvii) NO STABILIZATION OR MANIPULATION. None of the Company, CHS or their subsidiaries or, to the best of their knowledge, any of their directors, officers or affiliates has taken or will take, directly or indirectly, any action designed to, or that could be reasonably expected to, cause or result in stabilization or manipulation of the price of the Securities in violation of Regulation M under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(xxviii) CERTAIN TRANSACTIONS. Except as disclosed in the Prospectuses, there are no outstanding loans, advances, or guarantees of indebtedness by the Company, CHS or any of their subsidiaries to or for the benefit of any of the executive officers or directors of the Company or any of the members of the families of any of them that would be required to be so disclosed under the 1933 Act, the 1933 Act Regulations or Form S-1.

(xxix) STATISTICAL AND MARKET DATA. The statistical and market-related data included in the Prospectuses are derived from sources which the Company and CHS reasonably and in good faith believe to be accurate, reasonable and reliable in all material respects and the statistical and market-related data included in the Prospectuses agrees with the sources from which it was derived in all material respects.

(xxx) ACCOUNTING AND OTHER CONTROLS. The Company has established a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions were, are and will be executed in accordance with management's general or specific authorization; (ii) transactions were, are and will be recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets was, is and will be permitted only in accordance with a management's general or specific authorizations; and (iv) the recorded accountability for assets was, is and will be compared with existing assets at reasonable intervals and appropriate action was, is and will be taken with respect to any differences.

(xxxi) YEAR 2000. The Company and CHS have reviewed their operations and those of the hospitals owned, leased or operated by them to evaluate the extent to which the business or operations or any of the hospitals owned, leased or operated by them will be affected by the Year 2000 Problem. The Company does not anticipate incurring operating expenses or costs material to the financial position or results of operations of the Company and the hospitals owned, leased or operated by it in connection the Year 2000 Problem. As a result of the aforementioned review, the Company has no reason to believe that the Year 2000 Problem would reasonably be expected to have a Material Adverse Effect. The "Year 2000 Problem" as used herein means any risk that computer hardware or software used in the receipt, transmission, processing, manipulation, storage, retrieval, retransmission or other utilization of data or in the operation of mechanical or electrical systems of any kind will not, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively as in the case of dates or time periods occurring prior to January 1, 2000.

(b) OFFICER'S CERTIFICATES. Any certificate signed by any officer of the Company, CHS or any of their subsidiaries delivered to the Global Coordinator, the Lead Managers or to counsel for the International Managers shall be deemed a representation and warranty by the Company to each International Manager as to the matters covered thereby.

SECTION 2. SALE AND DELIVERY TO U.S. UNDERWRITERS; CLOSING.

(a) INITIAL SECURITIES. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each International Manager, severally and not jointly, and each International Manager, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule B, the number of Initial International Securities set forth in Schedule A opposite the name of such International Manager, plus any additional number of Initial International Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) OPTION SECURITIES. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the International Managers, severally and not jointly, to purchase up to an additional _ shares of Common Stock at the price per share set forth in Schedule B, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial International Securities but not payable on the International Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial International Securities upon notice by the Global Coordinator to the Company setting forth the number of International Option Securities as to which the several International Managers are then exercising the option and the time and date of payment and delivery for such International Option Securities. Any such time and date of delivery for the International Option Securities (a "Date of Delivery") shall be determined by the Global Coordinator, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the International Option Securities, each of the International Managers, acting severally and not jointly, will purchase that proportion of the total number of International Option Securities then being purchased which the number of Initial International Securities set forth in Schedule A opposite the name of such International Manager bears to the total number of Initial International Securities, subject in each case to such adjustments as the Global Coordinator in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) PAYMENT. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Debevoise & Plimpton, 875 Third Avenue, New York, New York 10022, or at such other place as shall be agreed upon by the Global Coordinator and the Company, at 9:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business

days after such date as shall be agreed upon by the Global Coordinator and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the International Option Securities are purchased by the International Managers, payment of the purchase price for, and delivery of certificates for, such International Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Global Coordinator and the Company, on each Date of Delivery as specified in the notice from the Global Coordinator to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Lead Managers for the respective accounts of the International Managers of certificates for the International Securities to be purchased by them. It is understood that each International Manager has authorized the Lead Managers, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial International Securities and the International Option Securities, if any, which it has agreed to purchase. Merrill Lynch, individually and not as representative of the International Managers, may (but shall not be obligated to) make payment of the purchase price for the Initial International Securities or the International Option Securities, if any, to be purchased by any International Manager whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such International Manager from its obligations hereunder.

(d) DENOMINATIONS; REGISTRATION. Certificates for the Initial International Securities and the International Option Securities, if any, shall be in such denominations and registered in such names as the Lead Managers may request in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be. The certificates for the Initial International Securities and the International Option Securities, if any, will be made available for examination and packaging by the Lead Managers in The City of New York not later than 10:00 A.M. (Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

(e) APPOINTMENT OF QUALIFIED INDEPENDENT UNDERWRITER. The Company hereby confirms its engagement of Merrill Lynch as, and Merrill Lynch hereby confirms its agreement with the Company to render services as, a "qualified independent underwriter" within the meaning of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. with respect to the offering and sale of the International Securities. Merrill Lynch, solely in its capacity as qualified independent underwriter and not otherwise, is referred to herein as the "Independent Underwriter".

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with each International Manager as follows:

(a) COMPLIANCE WITH SECURITIES REGULATIONS AND COMMISSION REQUESTS. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A and will notify the Global Coordinator immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectuses or any amended Prospectuses shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectuses or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) FILING OF AMENDMENTS. The Company will give the Global Coordinator notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectuses, will furnish the Global Coordinator with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Global Coordinator or counsel for the International Managers shall reasonably object.

(c) DELIVERY OF REGISTRATION STATEMENTS. The Company has furnished or will deliver to the Lead Managers and counsel for the International Managers, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and signed copies of all consents and certificates of experts, and will also deliver to the Lead Managers, without charge, a conformed copy of the Registration Statement as originally

filed and of each amendment thereto (without exhibits) for each of the International Managers. The copies of the Registration Statement and each amendment thereto furnished to the U.S. Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) DELIVERY OF PROSPECTUSES. The Company has delivered to each International Manager, without charge, as many copies of each preliminary prospectus as such International Manager reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each International Manager, without charge, during the period when the International Prospectus is required to be delivered under the 1933 Act or the 1934 Act, such number of copies of the International Prospectus (as amended or supplemented) as such International Manager may reasonably request. The International Prospectus and any amendments or supplements thereto furnished to the International Manager will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) CONTINUED COMPLIANCE WITH SECURITIES LAWS. The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement, the U.S. Purchase Agreement and in the Prospectuses. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the International Managers or for the Company, to amend the Registration Statement or amend or supplement any Prospectus in order that the Prospectuses will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement any Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectuses comply with such requirements, and the Company will furnish to the International Managers such number of copies of such amendment or supplement as the International Managers may reasonably request.

(f) BLUE SKY QUALIFICATIONS. The Company will use its best efforts, in cooperation with the International Managers, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Global Coordinator may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process

or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification of the Securities in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) RULE 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) USE OF PROCEEDS. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectuses under "Use of Proceeds".

(i) LISTING. The Company will use its best efforts to effect and maintain the quotation of the Common Stock (including the Securities) on the New York Stock Exchange.

(j) RESTRICTION ON SALE OF SECURITIES. During a period of 180 days from the date of the Prospectuses, the Company will not, without the prior written consent of the Global Coordinator, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder or under the U.S. Purchase Agreement, (B) any shares of Common Stock issued by the Company upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectuses, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to employee benefit plans of the Company referred to in the Prospectuses, (D) any shares of Common Stock issued pursuant to any non-employee director stock plan or dividend reinvestment plan, or (E) the issuance by the Company of shares of Common Stock pursuant to the Recapitalization.

(k) REPORTING REQUIREMENTS. The Company, during the period when the Prospectuses are required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the

time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(l) COMPLIANCE WITH NASD RULES. The Company hereby agrees that it will ensure that the Reserved Securities will be restricted as required by the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of this Agreement. The Underwriters will notify the Company as to which persons will need to be so restricted. At the request of the Underwriters, the Company will direct the transfer agent to place a stop transfer restriction upon such securities for such period of time. Should the Company release, or seek to release, from such restrictions any of the Reserved Securities, the Company agrees to reimburse the Underwriters for any reasonable expenses (including, without limitation, legal expenses) they incur in connection with such release.

(m) COMPLIANCE WITH RULE 463. The Company will comply with the requirements of Rule 463 of the 1933 Act Regulations.

SECTION 4. PAYMENT OF EXPENSES. (a) EXPENSES. The Company and CHS will pay all expenses incident to the performance of their obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters and the transfer of the Securities between the International Managers and the U.S. Underwriters, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus and of the Prospectuses and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities, (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the NASD of the terms of the sale of the Securities, (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange, (xi) all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, in connection with matters related to the Reserved Securities which are designated by the Company for sale to Eligible Persons who have expressed an interest in purchasing the Reserved Securities and (xii) the expenses of the Independent Underwriter.

(b) TERMINATION OF AGREEMENT. If this Agreement is terminated by the Lead Managers in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company and CHS shall reimburse the International Manager for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the International Managers.

SECTION 5. CONDITIONS OF INTERNATIONAL MANAGERS' OBLIGATIONS. The obligations of the several International Managers hereunder are subject to the accuracy of the representations and warranties of the Company and CHS contained in Section 1 hereof or in certificates of any officer of the Company, CHS or any of their subsidiaries delivered pursuant to the provisions hereof, to the performance by the Company of their covenants and other obligations hereunder, and to the following further conditions:

(a) EFFECTIVENESS OF REGISTRATION STATEMENT. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the International Managers. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A).

(b) OPINION OF COUNSEL FOR THE COMPANY. At Closing Time, the International Managers shall have received the favorable opinion, dated as of Closing Time, of:

(i) Rachel A. Seifert, Vice President, Secretary and General Counsel of the Company, in form and substance reasonably satisfactory to counsel for the International Managers, together with signed or reproduced copies of such letter for each of the other International Managers to the effect set forth in Exhibit A-1 hereto and to such further effect as counsel to the International Managers may reasonably request; and

(ii) Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, in form and substance reasonably satisfactory to counsel for the International Managers, together with signed or reproduced copies of such letter for each of the other International Managers to the effect set forth in Exhibit A-2 hereto and to such further effect as counsel to the International Managers may reasonably request.

(c) OPINION OF COUNSEL FOR THE INTERNATIONAL MANAGERS. At Closing Time, the Lead Managers shall have received the favorable opinion, dated as of Closing Time, of Debevoise & Plimpton, counsel for the International Managers, together with signed or reproduced copies of such letter for each of the other International Managers in form and substance reasonably satisfactory to the International Managers.

(d) OFFICERS' CERTIFICATE. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectuses, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, CHS and their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Lead Managers shall have received a certificate of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company and CHS have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and, to such person's knowledge after due inquiry, no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) ACCOUNTANT'S COMFORT LETTER. At the time of the execution of this Agreement, the Lead Managers shall have received from Deloitte & Touche LLP a letter, dated such date, in form and substance reasonably satisfactory to the Lead Managers, together with signed or reproduced copies of such letter for each of the other International Managers, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectuses.

(f) BRING-DOWN COMFORT LETTER. At Closing Time, the Representatives shall have received from Deloitte & Touche LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) APPROVAL OF LISTING. At Closing Time, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(h) NO OBJECTION. The NASD has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements with respect to the Securities.

(i) LOCK-UP AGREEMENTS. At the date of this Agreement, the Lead Managers shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule C hereto.

(j) PURCHASE OF INITIAL U.S. SECURITIES. Contemporaneously with the purchase by the International Managers of the Initial International Securities under this Agreement,

the U.S. Underwriters shall have purchased the Initial U.S. Securities under the U.S. Purchase Agreement.

(k) RECAPITALIZATION. Prior to the purchase of the Securities by the Underwriters, the Recapitalization shall have been consummated.

(l) CONDITIONS TO PURCHASE OF INTERNATIONAL OPTION SECURITIES. In the event that the International Managers exercise their option provided in Section 2(b) hereof to purchase all or any portion of the International Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the U.S. Representatives shall have received:

(i) OFFICERS' CERTIFICATE. A certificate, dated such Date of Delivery, of the President and Chief Executive Officer, and of the Executive Vice President and Chief Financial Officer of the Company, confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) OPINION OF COUNSEL FOR COMPANY. The favorable opinion of Fried, Frank, Harris, Shriver & Jacobson, special counsel for the Company, together with the favorable opinion of Rachel A. Siefert, Vice President, Secretary and General Counsel of the Company, each in form and substance reasonably satisfactory to counsel for the International Managers, dated such Date of Delivery, relating to the International Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Section 5(b) hereof.

(iii) OPINION OF COUNSEL FOR INTERNATIONAL MANAGERS. The favorable opinion of Debevoise & Plimpton, counsel for the International Managers, dated such Date of Delivery, relating to the International Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) BRING-DOWN COMFORT LETTER. A letter from Deloitte & Touche LLP, in form and substance reasonably satisfactory to the Lead Managers and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Lead Managers pursuant to Section 5(f) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(m) ADDITIONAL DOCUMENTS. At Closing Time and at each Date of Delivery, counsel for the International Managers shall have been furnished with such documents and opinions as they may reasonably require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the

representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be reasonably satisfactory in form and substance to the Lead Managers and counsel for the International Managers.

(n) TERMINATION OF AGREEMENT. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of International Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several International Managers to purchase the relevant Option Securities, may be terminated by the Lead Managers by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

SECTION 6. INDEMNIFICATION.

(a) INDEMNIFICATION OF THE INTERNATIONAL MANAGERS. (1) The Company and CHS jointly and severally agree to indemnify and hold harmless each International Manager and each person, if any, who controls any International Manager within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectuses (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of (A) the violation of any applicable laws or regulations of any jurisdiction where Reserved Securities have been offered and (B) any untrue statement or alleged untrue statement of a material fact included in the supplement or prospectus wrapper material distributed in any jurisdiction in connection with the reservation and sale of the Reserved Securities to employees, directors and other persons with relationships with the Company who have expressed an interest in purchasing the Reserved Securities or the omission or alleged omission therefrom of a material fact necessary to make the statements therein, when considered in conjunction with the Prospectuses or preliminary prospectuses, not misleading;

(iii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or

any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission or in connection with any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company; and

(iv) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Merrill Lynch), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission or in connection with any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof, to the extent that any such expense is not paid under (i), or (ii) or (iii) above;

PROVIDED, HOWEVER, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent (x) arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any International Manager through the Lead Managers expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary prospectus or the International Prospectus (or any amendment or supplement thereto) or (y) resulting from the fact that a court of competent jurisdiction shall have made a final, non-appealable determination that (1) the untrue statement or omission was corrected in the International Prospectus, (2) that at a time sufficiently prior to the Closing Time, the Company furnished copies of the International Prospectus in sufficient quantities to such International Manager, (3) that such International Manager failed to send or give a copy of the International Prospectus to the person asserting such loss, liability, claim, damage or expense prior to the written confirmation or the sale of Securities to such person by such International Manager as required by the 1933 Act or the 1933 Act Regulations, and (4) that the sending of the International Prospectus to the person asserting such loss, liability, claim, damage or expense would have constituted a defense to the claim asserted by such person or persons.

(2) In addition to and without limitation of the Company's obligation to indemnify Merrill Lynch as an Underwriter, the Company also agrees to indemnify and hold harmless the Independent Underwriter and each person, if any, who controls the Independent Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, from and against any and all loss, liability, claim, damage and expense whatsoever, as incurred, incurred as a result of the Independent Underwriter's participation as a "qualified independent underwriter" within the meaning of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. in connection with the offering of the International Securities.

(3) Insofar as this indemnity agreement may permit indemnification for liabilities under the 1933 Act of any person who is a partner of a International Manager or who controls an underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and who, at the date of this Agreement, is a director or officer of the Company or controls the

Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, such indemnity agreement is subject to the undertaking of the Company in the Registration Statement under Item.

(b) INDEMNIFICATION OF COMPANY, DIRECTORS AND OFFICERS. Each International Manager severally agrees to indemnify and hold harmless the Company, CHS and their respective directors, each of the officers of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a)(1) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or any preliminary International prospectus or the International Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such International Manager through the Lead Managers expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the International Prospectus (or any amendment or supplement thereto).

(c) ACTIONS AGAINST PARTIES; NOTIFICATION. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a)(1) above, counsel to the indemnified parties shall be selected by Merrill Lynch, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances; provided, that, if indemnity is sought pursuant to Section 6(a)(2), then, in addition to the fees and expenses of such counsel for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one counsel (in addition to any local counsel) separate from its own counsel and that of the other indemnified parties for the Independent Underwriter in its capacity as a "qualified independent underwriter" and all persons, if any, who control the Independent Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of 1934 Act in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances if, in the reasonable judgment of the Independent Underwriter, there may exist a conflict of interest between the Independent Underwriter and the other indemnified parties. Any such separate counsel for the Independent Underwriter and such control persons of the Independent Underwriter shall be designated in writing by the Independent Underwriter. No indemnifying party shall,

without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) SETTLEMENT WITHOUT CONSENT IF FAILURE TO REIMBURSE. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(1)(iii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) INDEMNIFICATION FOR RESERVED SECURITIES. In connection with the offer and sale of the Reserved Securities, the Company and CHS jointly and severally agree, promptly upon a request, in writing, to indemnify and hold harmless the Underwriters from and against any and all losses, liabilities, claims, damages and expenses incurred by them as a result of the failure of Eligible Persons who have expressed an interest in purchasing the Reserved Securities to pay for and accept delivery of Reserved Securities which, by the end of the first business day following the date of this Agreement, were subject to a properly confirmed agreement to purchase.

SECTION 7. CONTRIBUTION. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and CHS on the one hand and the International Managers on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and CHS on the one hand and of the International Managers on the other hand in connection with the statements or omissions, or in connection with any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof, which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company and CHS on the one hand and the International Managers on the other hand in connection with the offering of the International Securities pursuant to this Agreement shall be deemed to be in the same respective proportions

as the total net proceeds from the offering of the International Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the International Managers, in each case as set forth on the cover of the International Prospectus bear to the aggregate initial public offering price of the International Securities as set forth on such cover.

The relative fault of the Company, and CHS on the one hand and the International Managers on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the International Managers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or any violation of the nature referred to in Section 6(a)(1)(ii)(A) hereof.

The Company, CHS and the International Managers agree that Merrill Lynch will not receive any additional benefits hereunder for serving as the Independent Underwriter in connection with the offering and sale of the International Securities.

The Company, CHS and the International Managers agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the International Managers were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no International Manager shall be required to contribute any amount in excess of the amount by which the total price at which the International Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such International Manager has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls a International Manager within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such International Manager, and each director of the Company or CHS, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20

of the 1934 Act shall have the same rights to contribution as the Company and CHS. The International Managers' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial International Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company, CHS or any of their subsidiaries submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any International Manager or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the International Managers.

SECTION 9. TERMINATION OF AGREEMENT.

(a) **TERMINATION; GENERAL.** The Lead Managers may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the International Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Lead Managers, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc. or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) **LIABILITIES.** If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. DEFAULT BY ONE OR MORE OF THE INTERNATIONAL MANAGERS. If one or more of the International Managers shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Lead Managers shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting International Managers, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts

as may be agreed upon and upon the terms herein set forth; if, however, the Lead Mangers shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of International Securities to be purchased on such date, each of the non-defaulting International Managers shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting International Managers, or

(b) if the number of Defaulted Securities exceeds 10% of the number of International Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after Closing Time, the obligation of the International Managers to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery, shall terminate without liability on the part of any non-defaulting International Manager.

No action taken pursuant to this Section shall relieve any defaulting International Manager from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which occurs after Closing Time, which does not result in a termination of the obligation of the International Managers to purchase and the Company to sell the relevant International Option Securities, as the case may be, either the Lead Managers or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "International Manager" includes any person substituted for a International Manager under this Section 10.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the International Managers shall be directed to the Lead Managers at North Tower, World Financial Center, New York, New York 10281-1201, attention of Syndicate Operations, with a copy to Debevoise & Plimpton, 875 Third Avenue, New York, New York, attention of Michael W. Blair; and notices to the Company or CHS shall be directed to them at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027, attention of Rachel A. Seifert, Vice President, Secretary and General Counsel, with a copy to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, attention of Jeffrey Bagner.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the International Managers and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the International Managers and the Company and CHS and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7

and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the International Managers and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any International Manager shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES THEREOF. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 14. EFFECT OF HEADINGS. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the International Managers, the Company and CHS in accordance with its terms.

Very truly yours,

COMMUNITY HEALTH SYSTEMS, INC.

By _____
Name:
Title:

CHS/COMMUNITY HEALTH SYSTEMS, INC.

BY _____
Name:
Title:

CONFIRMED AND ACCEPTED,
as of the date first above written:

MERRILL LYNCH INTERNATIONAL
BANK OF AMERICA INTERNATIONAL
LIMITED
CHASE SECURITIES INC.
CREDIT SUISSE FIRST BOSTON (EUROPE)
LIMITED
GOLDMAN SACHS INTERNATIONAL
MORGAN STANLEY & CO.
INTERNATIONAL LIMITED

BY: MERRILL LYNCH INTERNATIONAL

By _____
Authorized Signatory

For themselves and as Lead Mangers of the
other International Managers named in
Schedule A hereto.

SCHEDULE A

NAME OF
INTERNATIONAL
MANAGER

Number of
Initial International
SECURITIES

Merrill Lynch International
Bank of America International Limited
Chase Securities Inc.
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited

Total

-

SCHEDULE B

COMMUNITY HEALTH SYSTEMS, INC.

_ Shares of Common Stock

(Par Value \$.01 Per Share)

1. The initial public offering price per share for the Securities, determined as provided in said Section 2, shall be \$_.

2. The purchase price per share for the International Securities to be paid by the several International Managers shall be \$_, being an amount equal to the initial public offering price set forth above less \$_ per share; provided that the purchase price per share for any International Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial International Securities but not payable on the International Option Securities.

SCHEDULE C

Sheila P. Burke
Robert J. Dole
J. Anthony Forstmann
Nicholas C. Forstmann
Theodore J. Forstmann
Dale F. Frey
Sandra A. Horbach
Thomas H. Lister
Michael A. Miles
Samuel A. Nunn
Wayne T. Smith
W. Larry Cash
John Fromhold
David Miller
Gary Newsome
Michael T. Portacci
Rachael A. Seifert
All other Class B Stockholders

Sch C - 1

FORM OF OPINION OF COMPANY'S GENERAL COUNSEL
TO BE DELIVERED PURSUANT TO
SECTION 5(b)(i)

_____, 2000

Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
As U.S. Representatives of the several U.S. Underwriters
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Merrill Lynch International
Bank of America International Limited
Chase Securities Inc.
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
As Lead Managers of the several International Managers
c/o Merrill Lynch International
Ropemaker Place
25 Ropemaker Street
London, England EC2Y 9LY

Ladies and Gentlemen:

I am Vice President, Secretary and General Counsel of Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Company ("CHS"). I am delivering this opinion pursuant to (i) Section 5(b)(i) of the U.S. Purchase Agreement, dated _____, 2000 (the "U.S. Purchase Agreement"), among the Company, CHS and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, as

U.S. Representatives of the several U.S. Underwriters named in Schedule A thereto, and (ii) Section 5(b)(i) of the International Purchase Agreement, dated _____, 2000 (the "International Purchase Agreement," and together with the U.S. Purchase Agreement, the "Purchase Agreements"), among the Company, CHS and Merrill Lynch International, Bank of America International Limited, Chase Securities Inc., Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited, as Lead Managers of the several International Managers named in Schedule A thereto. All capitalized terms used herein that are defined in, or by reference in, the Purchase Agreements have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on my part except to the extent otherwise expressly stated, and, except to the extent otherwise expressly stated, I express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, I have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as I have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, I have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to me as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, I have relied upon, and assume the accuracy of, the representations and warranties contained in the Purchase Agreements and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others and assume compliance on the part of all parties to the Purchase Agreements with the covenants and agreements contained therein.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, I am of the opinion that:

1. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

2. Each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties

and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

3. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and, to the best of my knowledge, is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity; none of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary.

4. All descriptions in the Prospectuses of contracts and other documents to which the Company, CHS or their subsidiaries are a party are accurate in all material respects; to the best of my knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

5. None of the Company or CHS is in violation of its charter or by-laws.

6. The Company, CHS and each of their subsidiaries and each of the hospitals owned, leased or operated by any of them have all necessary permits, licenses, certificates, approvals (including, without limitation, certification under the Medicare and Medicaid programs), accreditations (including, without limitation, accreditation by the Joint Commission on Accreditation of Healthcare Organizations) and other authorizations ("Governmental Licenses") (except where the failure to have such Governmental Licenses, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the business, operations or financial condition of the Company, CHS and their subsidiaries taken as a whole), to own their respective properties and to conduct their respective businesses as now being conducted.

7. No filing, consent, approval, authorization, order, registration or qualification of or with any Tennessee court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the consummation by the Company and CHS of the transactions contemplated by the Purchase Agreements, except for such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

8. There is not pending or, to my knowledge, threatened any action, suit, proceeding, inquiry or investigation to which the Company or any subsidiary is a party, or to which the property of the Company or any subsidiary is subject, before or brought by any court or governmental agency or body, domestic or foreign, which would reasonably result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the consummation of the Recapitalization, the transactions contemplated in the Purchase Agreements or the performance by the Company of its obligations thereunder; it being understood that I express no opinion with respect to any "qui tam" action as to which I have no knowledge of its pendency.

9. The statements in the Prospectuses under "Business - Legal Proceedings," "Business - Government Regulations", Business - Payment" and "Business - Compliance Program," in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

In the course of the preparation by the Company of the Registration Statement and the Prospectuses, I attended conferences with certain of the officers and representatives of the Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriter, at which the contents of the Registration Statement and the Prospectuses were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, I attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectuses were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectuses, other than as set forth in paragraph 5 above. Subject to the foregoing and on the basis of the information I gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to my attention that causes me to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectuses as of their dates contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing has come to my attention in the course of proceedings described in the second sentence of this paragraph that causes me to believe that the Prospectuses on the date and time of delivery of this letter contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under

_____, 2000

which they were made, not misleading. I express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectuses.

The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of Tennessee and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and I undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if I become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Purchase Agreements and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without my prior written consent.

Very truly yours,

Rachel A. Seifert
Vice President, Secretary
and General Counsel

FORM OF OPINION OF FRIED, FRANK,
HARRIS, SHRIVER & JACOBSON
TO BE DELIVERED PURSUANT TO
SECTION 5(b)(ii)

212-859-8136
(FAX: 212-859-8586)

_____, 2000

Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
As U.S. Representatives of the several U.S. Underwriters
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Merrill Lynch International
Bank of America International Limited
Chase Securities Inc.
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
As Lead Managers of the several International Managers
c/o Merrill Lynch International
Ropemaker Place
25 Ropemaker Street
London, England EC2Y 9LY

Ladies and Gentlemen:

We are acting as special counsel to Community Health Systems, Inc., a Delaware corporation (the "Company"), and CHS/Community Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of

the Company ("CHS"), in connection with the underwritten public offering of _____ shares (the "Securities") of common stock, par value \$.01 per share (the "Common Stock"), of the Company. This opinion is delivered to you at the Company's request pursuant to (i) Section 5(b)(ii) of the U.S. Purchase Agreement, dated _____, 2000 (the "U.S. Purchase Agreement"), among the Company, CHS and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, as U.S. Representatives of the several U.S. Underwriters named in Schedule A thereto, and (ii) Section 5(b)(ii) of the International Purchase Agreement, dated _____, 2000 (the "International Purchase Agreement," and together with the U.S. Purchase Agreement, the "Purchase Agreements"), among the Company, CHS and Merrill Lynch International, Bank of America International Limited, Chase Securities Inc., Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited, as Lead Managers of the several International Managers named in Schedule A thereto. All capitalized terms used herein that are defined in, or by reference in, the Purchase Agreements have the meanings assigned to such terms therein, or by reference therein, unless otherwise defined herein. With your permission, all assumptions and statements of reliance expressly set forth herein have been made without any independent investigation or verification on our part except to the extent otherwise expressly stated, and, except to the extent otherwise expressly stated, we express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, we have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company and CHS, such certificates of public officials and such other documents and (iii) received such information from officers and representatives of the Company, CHS and others, in each case as we have deemed necessary or appropriate for the purposes of this opinion.

In all such examinations, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, we have relied upon, and assume the accuracy of, the representations and warranties contained in the Purchase Agreements and certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, CHS and others, and assume compliance on the part of all parties to the Purchase Agreements with the covenants and agreements contained therein. Insofar as statements herein are based upon our knowledge, such phrase means and is limited to the conscious awareness of facts or other information by lawyers in this Firm who gave substantive attention to the representation of the Company and CHS in connection with the Purchase Agreements.

With respect to the opinion expressed in the second sentence of paragraph 3 below, we have relied solely on the stock transfer books of the Company. With respect to the opinions expressed in paragraphs 10 and 11 below, our opinions are is limited to our review of only those laws and

regulations that, in our experience, are normally applicable to transactions of the type contemplated in the Purchase Agreements. With respect to the opinion expressed in paragraph 7, we have relied solely on the oral advice of the Staff of the Securities and Exchange Commission (the "Commission") that the Commission has issued an order declaring the registration under the 1933 Act of the U.S. Securities effective and as to the absence of any stop order or any proceeding relating thereto.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, we are of the opinion that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware. CHS has been incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.
2. Each of the Company and CHS has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under the Purchase Agreements.
3. The Company has an authorized capitalization as set forth in the Prospectuses under the caption "Capitalization". The outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable. None of the outstanding shares of Common Stock were issued in violation of the preemptive or other similar rights of any securityholder of the Company.
4. The Securities to be purchased by the Underwriters from the Company pursuant to the Purchase Agreements have been duly authorized for issuance and sale to the Underwriters and, when issued and delivered by the Company pursuant to the Purchase Agreements against payment of the consideration set forth in the Purchase Agreements, will be duly authorized, validly issued, fully paid and non-assessable and no holder of the Securities will be subject to personal liability under the Delaware General Corporation Law by reason of being such a holder.
5. The issuance and sale of the Securities by the Company is not subject to preemptive or other similar rights arising under (i) the Delaware General Corporation Law, (ii) the Restated Certificate of Incorporation or By-laws of the Company, or (iii) any indenture, mortgage, deed of trust, loan agreement, other agreement or instrument, or court decree or order (including, without limitation, any settlement agreement) which has been filed as an exhibit to the Registration Statement or otherwise identified to us in a certificate provided by the Chief Financial Officer and the General Counsel of the Company as material to the Company and its subsidiaries taken as a whole (collectively, the "Identified Documents").
6. Each of the Purchase Agreements has been duly authorized, executed and delivered by the Company and CHS.
7. The Registration Statement[, including any Rule 462(b) Registration Statement,] has been declared effective under the 1933 Act and no stop order suspending the effectiveness of the

Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or threatened by the Commission. Any required filing of the Prospectuses pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b).

8. The Registration Statement[, including any Rule 462(b) Registration Statement,] the Prospectuses[, and each amendment or supplement to the Registration Statement and the Prospectuses,] as of their respective effective or issue dates (other than the financial statements, related notes, supporting schedules and other financial data included therein or omitted therefrom, as to which we express no opinion) appeared on their face to be responsive as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

9. The statements in the Prospectuses under "Description of Capital Stock," "Description of our Indebtedness," "Shares Eligible for Future Sale" and "United States Federal Income Tax Considerations for Non-United States Holders" and the statements in the Registration Statement under Item 14, in so far as they constitute summaries of legal matters or documents referred to therein, fairly summarize in all material respects the matters referred to therein.

10. No filing, consent, approval, authorization, order, registration or qualification of or with any United States, New York or, with respect to matters arising under the Delaware General Corporation Law, Delaware court or governmental agency or body is required by or on behalf of the Company for the sale of the Securities or the consummation by the Company and CHS of the transactions contemplated by the Purchase Agreements, except the registration under the 1933 Act of the Securities and such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state or foreign securities or Blue Sky laws, rules and regulations in connection with the purchase and distribution of the Securities by the Underwriters.

11. The execution, delivery and performance by the Company and CHS with all of the provisions of the Purchase Agreements and the consummation of the transactions contemplated by the Purchase Agreements and the Recapitalization do not and will not conflict with, or result in a breach or violation of, any of the terms or provisions of, or constitute a default or a Repayment Event under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, CHS or any of their subsidiaries pursuant to, (i) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) the provisions of the Restated Certificate of Incorporation or By-laws of the Company, (iii) the Delaware General Corporation Law or any present law, or present regulation of any government agency or authority, of the State of New York or the United States of America known by us to be applicable to the Company or any of its subsidiaries or their respective properties or (iv) any court decree or order binding upon the Company or any of its subsidiaries or their respective properties (it being understood that with respect to the opinions in clauses (i) and (iv) of this paragraph, such opinions are limited to the Identified Documents.

12. Other than as disclosed in the Prospectuses, to our knowledge, there are no persons with registration rights or other similar rights to have any securities of the Company registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

13. The Company is not an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

14. The Recapitalization was duly authorized by the Company's Board of Directors and stockholders and has been consummated in accordance with its terms.

In the course of our engagement to represent or to advise the Company, we have not become aware of any pending legal proceeding before, or pending investigation by, any court or administrative agency or authority or any arbitration tribunal of the United States or the State of New York against or directly affecting the Company, CHS or any of their respective subsidiaries or properties which seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief in connection with or which would materially adversely affect the legality, validity or enforceability of, the Purchase Agreements, the Recapitalization or the transactions contemplated thereby. In making the foregoing statement, we have endeavored, to the extent we have believed necessary, to determine from lawyers currently in our Firm who have performed substantive legal services for the Company, whether such services involved substantive attention in the form of legal representation concerning pending legal proceedings or pending investigations of the nature referred to above. Beyond that, we have not made any review, search or investigation of public files or records or files or records of the Company, CHS or any of their respective subsidiaries or of their transactions, or any other investigation or inquiry with respect to the foregoing statement.

In the course of the preparation by the Company of the Registration Statement and the Prospectuses, we attended conferences with certain of the officers and other representatives of the Company and CHS, representatives of the independent public accountants for the Company and CHS and representatives of the Underwriters, at which the contents of the Registration Statement and the Prospectuses were discussed. Between the date of effectiveness of the Registration Statement and the time of delivery of this opinion, we attended additional conferences with certain of the officers and representatives of, and the independent public accountants for, the Company and CHS, at which the contents of the Prospectuses were discussed to a limited extent. Given the limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process, we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement and the Prospectuses, other than as set forth in paragraph 9 above. Subject to the foregoing and on the basis of the information we gained in the performance of the services referred to above, including information obtained from officers and other representatives of, and the independent accountants for, the Company and CHS, nothing has come to our attention that causes us to believe that, as of the time it became effective, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectuses as of their dates contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Also, subject to the foregoing, nothing

has come to our attention in the course of proceedings described in the second sentence of this paragraph that causes us to believe that the Prospectuses on the date and time of delivery of this letter contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. We express no view or belief, however, with respect to the financial statements, related notes and schedules thereto and other financial data included in or omitted from the Registration Statement or the Prospectuses.

The opinions set forth above are subject to the following qualifications:

A. With respect to the opinion expressed in paragraph 11 above: (i) we have made no independent investigation as to whether the Identified Documents identified to us in the Officer's Certificate, which are governed by the laws of any jurisdiction other than the State of New York, will be enforced as written under the laws of such jurisdiction; and (ii) we express no opinion with respect to any conflict with or any breach or violation of, or default under, any Identified Document (x) not readily ascertainable from the face of such document, (y) arising under or based upon any cross-default provisions insofar as such conflict, breach, violation or default relates to a default under a document which is not an Identified Document, or (z) arising under or based upon any covenant of a financial or numerical nature or which requires arithmetic computation.

B. We express no opinion as to the indemnity, contribution or governing law provisions of any agreement.

C. The opinions expressed above are subject to the effect of, and we express no opinions herein as to, the application of state or foreign securities or Blue Sky laws or any rules and regulations thereunder. The opinions expressed herein are limited to the federal laws of the United States of America, the laws of the State of New York and, to the extent relevant to the opinions expressed herein, the General Corporation Law of the State of Delaware, each as currently in effect. The opinions expressed herein are given as of the date hereof, and we undertake no obligation to supplement this letter if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinions expressed herein after the date hereof or for any other reason.

The opinions expressed herein are solely for your benefit in connection with the Purchase Agreements and may not be relied on in any manner or for any purpose by any other person or entity and may not be quoted in whole or in part without our prior written consent.

Very truly yours,
FRIED, FRANK, HARRIS, SHRIVER & JACOBSON

By: _____
Jeffrey Bagner

[FORM OF LOCK-UP AGREEMENT FROM DIRECTORS, OFFICERS OR
OTHER STOCKHOLDERS PURSUANT TO SECTION 5(I)]

Exhibit B

MERRILL LYNCH & CO.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Banc of America Securities LLC
Chase Securities Inc.
Credit Suisse First Boston Corporation
Goldman, Sachs & Co.
Morgan Stanley & Co. Incorporated
as U.S. Representatives of the several
U.S. Underwriters to be named in the
within-mentioned U.S. Purchase Agreement
Merrill Lynch International
Bank of America International Limited
Chase Manhattan International Limited
Credit Suisse First Boston (Europe) Limited
Goldman Sachs International
Morgan Stanley & Co. International Limited
c/o Merrill Lynch & Co.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
North Tower
World Financial Center
New York, New York 10281-1209

Re: PROPOSED PUBLIC OFFERING BY COMMUNITY HEALTH SYSTEMS

Dear Sirs:

The undersigned, a stockholder and/or an officer and/or a director of Community Health Systems, Inc. a Delaware corporation (the "Company"), understands that (i) Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Banc of America Securities LLC, Chase Securities Inc., Credit Suisse First Boston Corporation, Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated propose to enter into a U.S. Purchase Agreement (the "U.S. Purchase Agreement") with the Company providing for the public offering of shares (the "Securities") of the Company's common stock, par value \$.01 per share (the "Common Stock") and (ii) Merrill Lynch International, Bank of America International Limited, Chase Manhattan International Limited, Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley & Co. International Limited propose to enter into an International Purchase Agreement with the Company providing for the public offering of the Common Stock of the Company (together with the U.S. Purchase Agreement, the "Purchase Agreements"). In recognition of the benefit that such an offering will confer upon the

undersigned as a stockholder and/or an officer and/or a director of the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees with each underwriter to be named in the Purchase Agreements that, during a period of 180 days from the date of the Purchase Agreements, the undersigned will not, without the prior written consent of Merrill Lynch, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise.

Notwithstanding the foregoing, the undersigned may transfer shares of Common Stock (i) as a BONA FIDE gift or gifts, provided that prior to such transfer the donee or donees thereof agree in writing to be bound by the restrictions set forth herein, (ii) to any trust for the direct or indirect benefit of the undersigned or the immediate family of the undersigned, provided that prior to such transfer the trustee of the trust agrees in writing to be bound by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value or (iii) if such transfer occurs by operation of law, such as rules of descent and distribution, statutes governing the effects of a merger or a qualified domestic order, provided that prior to such transfer the transferee executes an agreement stating that the transferee is receiving and holding the shares subject to the provisions of this agreement. For purposes of this Lock-Up Agreement, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin.

Very truly yours,

Signature: _____
Print Name: _____

[Fried, Frank, Harris, Shriver & Jacobson Letterhead]

212-859-8136
(FAX: 212-859-8586)

May 17, 2000

Community Health Systems, Inc.
155 Franklin Road, Suite 400
Brentwood, Tennessee 37027

RE: Registration Statement on Form S-1 (No. 333-31790)

Ladies and Gentlemen:

We have acted as special counsel for Community Health Systems, Inc., a Delaware corporation (the "Company"), in connection with the underwritten public offering (the "Offering") by the Company of shares (the "Shares") of common stock, par value \$.01 per share, of the Company, including Shares which may be offered and sold upon the exercise of any over-allotment option granted to the underwriters. The Shares are to be offered to the public (i) in the United States and Canada pursuant to a purchase agreement to be entered into by and among the Company, CHS/Community Health Systems, Inc., Merrill Lynch & Co., Banc of America Securities LLC, Chase H&Q, Credit Suisse First Boston, Goldman, Sachs & Co. and Morgan Stanley Dean Witter as representatives of the underwriters (the "U.S. Purchase Agreement") and (ii) outside of the United States and Canada pursuant to a purchase agreement to be entered into by and among the Company, CHS/Community Health Systems, Inc., Merrill Lynch International, Bank of America International Limited, Chase H&Q, Credit Suisse First Boston (Europe) Limited, Goldman Sachs International and Morgan Stanley Dean Witter as representatives of the underwriters (together with the U.S. Purchase Agreement, the "Purchase Agreements"). The opinion set forth below is based on the assumption that, prior to the sale of the Shares pursuant to the Purchase Agreements, the Company's Restated Certificate of Incorporation will have become effective substantially in the form filed as Exhibit 3.1 to the Registration Statement, as amended, of the Company on Form S-1 (No. 333-31790) (the "Registration Statement"), and that at least par value will be paid for the Shares.

With your permission, all assumptions and statements of reliance herein have been made without any independent investigation or verification on our part except to the extent otherwise expressly stated, and we express no opinion with respect to the subject matter or accuracy of such assumptions or items relied upon.

In connection with this opinion, we have (i) investigated such questions of law, (ii) examined originals or certified, conformed or reproduction copies of such agreements, instruments, documents and records of the Company, such certificates of public officials and such other documents, and (iii) received such information from officers and representatives of the Company as we have deemed necessary or appropriate for the purposes of this opinion. In all examinations, we have assumed the legal capacity of all natural persons executing documents, the genuineness of all signatures, the authenticity of original and certified documents and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, we have relied upon, and assume the accuracy of, representations and warranties contained in the Purchase Agreements and certificates and oral or written statements and other information of or from representatives of the Company and others and assume compliance on the part of all parties to the Purchase Agreements with their covenants and agreements contained therein.

Based upon the foregoing and subject to the limitations and assumptions set forth herein, we are of the opinion that the Shares to be registered pursuant to the Registration Statement (when issued, delivered and paid for in accordance with the terms of the Purchase Agreements) will be duly authorized, validly issued, fully paid and non-assessable.

The opinion expressed herein is limited to the General Corporation Law of the State of Delaware (the "GCLD") and applicable provisions of the Delaware Constitution, in each case as currently in effect, and reported judicial decisions interpreting the GCLD and the Delaware Constitution.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this Firm under the caption "Legal Matters" in the Prospectuses forming part of the Registration Statement. In giving such consent, we do not hereby admit that we are in the category of such persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Very truly yours,

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON

By: /s/ Jeffrey Bagner

Jeffrey Bagner

CORPORATE COMPLIANCE AGREEMENT
BETWEEN THE
OFFICE OF INSPECTOR GENERAL
OF THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
AND
COMMUNITY HEALTH SYSTEMS, INC.

I. PREAMBLE

Community Health Systems, Inc. ("Community Health") hereby enters into this Corporate Compliance Agreement ("CCA") with the Office of Inspector General ("OIG") of the United States Department of Health and Human Services ("HHS") on behalf of itself and any and all subsidiary hospitals of Community Health. For the purposes of the CCA, Community Health and each of its subsidiary hospitals shall hereinafter individually and collectively be referred to as "CHS." Community Health enters into this CCA to ensure compliance by CHS and all employees, contractors and agents of CHS with the requirements of Medicare, Medicaid and all other Federal health care programs (as defined in 42 U.S.C. ss. 1320a-7b(f) (hereinafter collectively referred to as the "Federal health care programs"). CHS's compliance with the terms and conditions in this CCA shall constitute an element of CHS's present responsibility with regard to participation in the Federal health care programs. Contemporaneously with this CCA, Community Health is entering into a settlement agreement with the United States (the "Settlement Agreement"), and this CCA is incorporated by reference into the Settlement Agreement.

Community Health represents that, prior to this CCA, Community Health voluntarily established a Corporate Compliance Program which provides, inter alia, for a Corporate Compliance Officer, various compliance committees, a compliance training and education program, a confidential reporting hotline, and auditing and monitoring activities, and which includes various policies and procedures aimed at ensuring that CHS's participation in the Federal health care programs conforms to all federal laws, state laws, and Federal health care program requirements. The present version of Community Health's Corporate Compliance Program was set forth in a formal document dated April 28, 1999 (hereinafter, the "Corporate Compliance Program").

Pursuant to this CCA, Community Health agrees to operate its Corporate Compliance Program consistent with the requirements of this CCA and to adopt or modify any components of the Corporate Compliance Program as needed to be in compliance with all of the corporate integrity obligations undertaken by CHS under this CCA.

II. TERM OF THE CCA

The period of the compliance obligations assumed by CHS under this CCA shall be three (3) years from the effective date of this CCA (unless otherwise specified). The effective date of this CCA will be the date on which the final signatory of this CCA executes this CCA.

III. CORPORATE INTEGRITY OBLIGATIONS

CHS shall comply with the following corporate integrity obligations and shall ensure that the obligations specified below are incorporated into or met by the Corporate Compliance Program.

A. CORPORATE COMPLIANCE OFFICER AND COMMITTEE

1. CORPORATE COMPLIANCE OFFICER. Community Health has appointed a Corporate Compliance Officer. Within 120 days of the effective date of this CCA, Community Health shall ensure that, pursuant to the Corporate Compliance Program, the Corporate Compliance Officer (i) will provide regular (at least quarterly) reports regarding compliance matters directly to the CEO and/or the Board of Directors of Community Health, and shall be authorized to report to the Board of Directors at any time; (ii) shall be responsible for developing and implementing policies, procedures, and practices designed to ensure compliance with the requirements set forth in this CCA and with the requirements of the Federal health care programs; and (iii) shall be responsible for monitoring the day-to-day activities engaged in by CHS to further its compliance objectives as well as for any reporting obligations created under this CCA. In the event a new Corporate Compliance Officer is appointed during the term of this CCA, CHS shall notify OIG, in writing, within fifteen (15) days of such a change.

2. CORPORATE COMPLIANCE WORK GROUP. Community Health has appointed a Corporate Compliance Work Group. Within 120 days of the effective date of this CCA, CHS shall ensure that, pursuant to the Corporate Compliance Plan, (i) the Corporate Compliance Work Group, at a minimum, includes the Corporate Compliance Officer and any other appropriate officers as necessary to meet the requirements of this CCA within Community Health's corporate structure (e.g., senior executives of each major department, such as billing, human resources, audit, and operations); and (ii) the Corporate Compliance Officer shall chair the Corporate Compliance Work Group and the Corporate Compliance Work Group shall support the Corporate Compliance Officer in fulfilling his or her responsibilities.

3. FACILITY COMPLIANCE CHAIRS AND COMMITTEES. The Corporate Compliance Program provides for a Facility Compliance Committee and a Facility Compliance Chair at each CHS hospital. Within 120 days of the effective date of this CCA, CHS shall ensure that, pursuant to the Corporate Compliance Program, (i) each CHS hospital has appointed a Facility Compliance Committee and a Facility Compliance Chair; (ii) the responsibilities of the Facility Compliance Chair shall include those responsibilities set forth as the "delegated responsibilities of the Facility Compliance Committees" on pages five and six of Community Health's Corporate Compliance Program, as adopted on April 28, 1999; and (iii) the Facility Compliance Committee includes, at a minimum, a Facility Compliance Chair and any other appropriate officers as necessary to meet the requirements of this CCA within the hospital's management structure (e.g., senior managers of each major department). The Facility Compliance Chairs shall report to the Corporate Compliance Officer and shall chair the Facility Compliance Committees, and the Facility Compliance Committees shall support the Facility Compliance Chairs in fulfilling their duties.

B. WRITTEN STANDARDS

1. BUSINESS ETHICS AND STANDARDS OF CONDUCT POLICY. Community Health has developed and implemented a Business Ethics and Standards of Conduct Policy (the "Ethics and Conduct Policy"). Within 120 days of the effective date of this CCA, CHS shall amend the Ethics and Conduct Policy to be consistent with the terms of this CCA and to meet the requirements set forth below. Within 120 days of the effective date of this CCA, the Ethics and Conduct Policy, as amended, shall be distributed to all employees, all physicians with medical staff privileges at any CHS hospital, and all contractors and agents of CHS with direct responsibility for the delivery, billing, or coding of health care services, (hereinafter collectively referred to as "Covered Persons"). The Ethics and Conduct Policy, shall, at a minimum, set forth:

- a. CHS's commitment to full compliance with all statutes, regulations, and guidelines applicable to Federal health care programs, including its commitment to prepare and submit accurate billings consistent with Federal health care program regulations and procedures or instructions otherwise communicated by appropriate regulatory agencies, e.g., the Health Care Financing Administration ("HCFA"), and/or their agents;
- b. CHS's requirement that all of its Covered Persons shall be expected to comply with all statutes, regulations, and guidelines applicable to Federal health care programs and with CHS's own Policies and Procedures (including the requirements of this CCA);
- c. the requirement that all of CHS's Covered Persons shall be expected to report suspected violations of any statute, regulation, or guideline applicable to Federal health care programs or of CHS's own Policies and Procedures;
- d. the possible consequences to both CHS and Covered Persons of failure to comply with all statutes, regulations, and guidelines applicable to Federal health care programs and with CHS's own Policies and Procedures or of failure to report such non-compliance; and
- e. the right of all Covered Persons to use the Confidential Disclosure Program, as well as CHS's commitment to confidentiality and non-retaliation with respect to disclosures.

CHS shall make the promotion of, and adherence to, the Ethics and Conduct Policy an element in evaluating the performance of managers, supervisors, and all other employees.

Within 120 days of the effective date of the CCA, and except as excused in sections III.C.3-4, below, each Covered Person shall affirm, in writing, that he or she has received, read,

understands, and will abide by CHS's Ethics and Conduct Policy. New Covered Persons shall receive the Ethics and Conduct Policy and shall complete the required affirmation within one week after becoming a Covered Person or within 120 days of the effective date of the CCA, whichever is later.

CHS will annually review the Ethics and Conduct Policy and will make any necessary revisions. These revisions shall be distributed within 30 days of completing such a change. Covered Persons shall affirm on an annual basis that they have received, read, understand and will abide by the Ethics and Conduct Policy.

2. POLICIES AND PROCEDURES. Community Health has developed written Policies and Procedures as part of its Corporate Compliance Program. Within 120 days of the effective date of this CCA, CHS shall ensure that the Policies and Procedures of the Corporate Compliance Program (i) address the operation of CHS's compliance program and its compliance with all federal and state health care statutes, regulations, and guidelines, including the requirements of the Federal health care programs; (ii) specifically address, at a minimum, proper coding for hospital stays; and (iii) include disciplinary guidelines and methods for employees and other individuals to make disclosures or otherwise report on compliance issues to CHS management through the Confidential Disclosure Program required by Section III.E. CHS shall assess and update as necessary the Policies and Procedures at least annually and more frequently, as appropriate. A summary of the Policies and Procedures will be provided to OIG in the first Annual Report. The Policies and Procedures will be available to OIG upon request.

Within 120 days of the effective date of the CCA, CHS shall ensure that pursuant to the Corporate Compliance Program, the relevant portions of the Policies and Procedures, as amended to meet the requirements of this section, shall be distributed to all members of the Compliance Work Group and of the Facility Compliance Committees. In addition, within 120 days of the effective date of this CCA, the relevant portions of the Policies and Procedures, as amended to meet the requirements of this section, shall be made available to all appropriate Covered Persons. Compliance staff or supervisors should be available to explain any and all Policies and Procedures.

C. TRAINING AND EDUCATION

1. GENERAL TRAINING. Within 120 days of the effective date of this CCA, CHS shall provide at least one (1) hour of training to each Covered Person (the "General Training"). This General Training shall explain CHS's:

- a. Corporate Compliance Agreement requirements;
- b. Compliance Program (including the Policies and Procedures as they pertain to general compliance issues); and
- c. Ethics and Conduct Policy.

New Covered Persons shall receive the General Training described above within 30 days of becoming a Covered Person or within 120 days after the effective date of this CCA, whichever is later. Each Covered Person shall receive such General Training on an annual basis. All training materials used for the General Training shall be made available to OIG upon request.

2. SPECIFIC TRAINING. Within 120 days of the effective date of this CCA, each Covered Person who is a physician or is involved in the preparation or submission of claims for reimbursement (including, but not limited to, coding and billing) from any Federal health care program shall receive at least four (4) hours of training (the "Specific Training") in addition to the General Training required above. CHS shall ensure that, pursuant to the Corporate Compliance Program, and as appropriate to the Covered Person's individual responsibilities, the Specific Training includes a discussion of:

- a. the submission of accurate bills for services rendered to Federal health care program patients;
- b. policies, procedures and other requirements applicable to the documentation of medical records;
- c. the personal obligation of each individual involved in the billing process to ensure that such billings are accurate;
- d. applicable reimbursement statutes, regulations, and program requirements and directives;
- e. the legal sanctions for improper billings; and
- f. examples of proper and improper billing practices.

Persons providing the Specific Training must be knowledgeable about the subject area.

Affected new Covered Persons shall receive the Specific Training within 30 days of becoming a Covered Person or within 120 days of the effective date of this CCA, whichever is later. If a new Covered Person who is a physician or is involved in the preparation or submission of claims for reimbursement (including, but not limited to, coding and billing) from any Federal health care program has any responsibility for the delivery of patient care, the preparation or submission of claims, and/or the assignment of procedure codes prior to completing this Specific Training, a Covered Person who has completed the Specific Training shall review all of the untrained person's work regarding the delivery of patient care, the preparation or submission of claims, and the assignment of procedure codes.

Covered Persons who have received the above-required Specific Training, or its equivalent, within 12 months prior to the effective date of this CCA are exempted from the above four (4) hour Specific Training requirement for the first year of this CCA only. CHS shall maintain records sufficient to support a listing of those Covered Persons for whom CHS is

claiming such an exemption as well as the date(s) and topics of the training received by those Covered Persons.

Every Covered Person who is a physician or is involved in the preparation or submission of claims for reimbursement (including, but not limited to, coding and billing) from any Federal health care program shall receive at least four (4) hours of such Specific Training on an annual basis. All training materials used for the Specific Training shall be made available to OIG upon request.

3. EXCEPTION FOR PHYSICIANS WITH MEDICAL STAFF PRIVILEGES.

Notwithstanding any other provision of this CCA, CHS shall make the General Training and the Specific Training, where appropriate, available to all physicians with medical staff privileges at any CHS hospital, and shall use its best efforts to encourage their attendance and participation. The Facility Compliance Officer at each CHS hospital shall maintain records of the percentage of all physicians with medical staff privileges at his or her hospital who attend such training.

4. EXCEPTION FOR PRE-EXISTING CONTRACTORS. The term "Pre-Existing Contractors" shall refer to Covered Persons who are independent contractors with whom CHS has an existing contract on the effective date of this CCA that has not been renewed or modified after the effective date of this CCA. Once CHS renegotiates, modifies, or renews a contract with an existing contractor, that contractor ceases to be a Pre-Existing Contractor as that term is used for the purposes of this CCA, and CHS will have full responsibility for the certification and training compliance obligations as pertain to that contractor. Notwithstanding any other provision of this CCA, the following are CHS's only obligations hereunder with respect to training and certification for Pre-Existing Contractors: (a) CHS shall attempt to renegotiate its contracts with Pre-Existing Contractors to require such contractors to meet all of the certification and training requirements of this CCA that apply to such contractors, and (b) CHS shall make the General Training and the Specific Training, where appropriate, available to all Pre-Existing Contractors, and shall use its best efforts to encourage their attendance and participation. The Facility Compliance Officer at each CHS hospital shall keep a record of all Pre-Existing Contractors with contracts with his or her hospital who attend such training.

5. CERTIFICATION. Each individual who is required to attend training shall certify, in writing, that he or she has attended the required training. The certification shall specify the type of training received and the date received. The Facility Compliance Chair for each CHS hospital shall retain the certifications for all Covered Persons for his or her hospital, along with the specific course materials utilized. The Corporate Compliance Officer shall retain the certifications for all Covered Persons not affiliated with a specific CHS hospital, along with the specific course materials utilized. The certifications and the materials shall be made available to OIG upon request.

D. REVIEW PROCEDURES

CHS shall retain one or more entities, such as an accounting, auditing or consulting firms, (hereinafter "Independent Review Organization" or "IRO") to perform review procedures to

assist CHS in assessing the adequacy of its billing and compliance practices pursuant to this CCA. The IROs must have expertise in the billing, coding, reporting and other requirements of the Federal health care programs from which CHS seeks reimbursement.

The Independent Review Organizations will conduct two separate engagements. One will be an analysis of the inpatient ICD-9 and diagnosis related group ("DRG") coding of each CHS hospital (the "DRG Review") to assist the CHS and OIG in determining compliance with all applicable statutes, regulations, and directives/guidance (the "DRG Review"). The second engagement will determine whether CHS is in compliance with this CCA (the "Compliance Engagement").

1. DRG REVIEW. Community Health represents that it has engaged, and will continue to engage for the term of this CCA, an Independent Review Organization to review the inpatient DRG coding of each CHS hospital. Within 120 days after the effective date of this CCA, CHS shall ensure that, pursuant to the Corporate Compliance Program, (i) the IRO has expertise in the billing, coding, reporting and other requirements of the Federal health care programs from which CHS seeks reimbursement; and (ii) the protocol for the DRG Review meets the following requirements:

- a. each quarter, for each hospital, 40% of all DRG discharges shall be reviewed;
- b. the discharges selected for review must be selected through random number sampling. To generate the random sample, CHS or the IRO shall use OIG's Office of Audit Services Statistical Sampling Software, also known as "RAT-STATS," which is available through the Internet at "www.hhs.gov/oig/oas/ratstat.htm];
- c. at each hospital, for any billing errors or inaccuracies found, the coding personnel at that hospital shall receive training regarding the errors or inaccuracies;
- d. if a hospital achieves an error rate of 3% or less, based on total number of discharges reviewed, then CHS may elect to skip that hospital in the next quarterly review, however that hospital shall be included in the following quarter's review;
- e. if a hospital maintains an error rate of 3% or less for two successive reviews, then CHS may elect to skip that hospital for the next three quarterly reviews; and
- f. in no event will a CHS hospital be subjected to a DRG review less frequently than once per year.

For the purposes of this CCA, the "error rate" shall be defined as the gross financial error rate, i.e., the percentage of amounts paid for the sample discharges that were overpayments (with

no reduction for underpayments). The 3% error rate threshold, as used in this section, is solely the criteria for whether CHS may elect to skip a hospital's quarterly DRG review. Nothing in this section relieves CHS of its responsibility to correct inaccuracies identified for any claim selected as part of any DRG review.

CHS shall continue to engage an IRO to perform these quarterly DRG Reviews for the term of this CCA.

A detailed summary of the reports prepared pursuant to the IRO's DRG Reviews, including the percentage error rates for each DRG reviewed at each hospital and a description of the methodologies used, shall be included in each of CHS's Annual Reports to OIG. The IRO's complete DRG Review reports shall be maintained by CHS and provided to the OIG upon request.

2. COMPLIANCE ENGAGEMENT. An Independent Review Organization shall also conduct a Compliance Engagement, that shall provide findings regarding whether CHS's program, policies, procedures, and operations comply with the terms of this CCA. The Compliance Engagement shall include section by section findings regarding the requirements of this CCA. The Compliance Engagement shall be performed annually and cover each of the one-year periods beginning on the effective date of this CCA or the anniversary of that date.

Based on the results of the first Compliance Engagement and on the results of the DRG Reviews for the first year of the term of this CCA, OIG may, at its sole discretion, relieve CHS of its obligation to retain and IRO to conduct a Compliance Engagement for the second and third years of this CCA.

A complete copy of the Independent Review Organization's Compliance Engagement report shall be included in each of CHS's Annual Reports to OIG.

3. VERIFICATION/VALIDATION. In the event that the OIG has reason to believe that CHS's DRG Review fails to conform materially to its obligations under the CCA or indicates improper billings not otherwise adequately addressed in the DRG Review report, and thus determines that it is necessary to conduct an independent review to determine whether or the extent to which CHS is complying with its obligations under this CCA, CHS agrees to pay for the reasonable cost of any such review or engagement by the OIG or any of its designated agents.

E. CONFIDENTIAL DISCLOSURE PROGRAM

Community Health represents that prior to the effective date of this CCA, it had established an "Ethics HOTLINE." Within 120 days after the effective date of this CCA, CHS shall ensure that, pursuant to its Corporate Compliance Program, it has established a Confidential Disclosure Program, which includes measures (e.g., the Ethics HOTLINE) to enable employees, contractors, agents or other individuals to disclose, to the Corporate Compliance Officer or some other person who is not in the disclosing individual's chain of command, any identified issues or questions associated with CHS's policies, practices or procedures with respect to a Federal health care program, believed by the individual to be inappropriate. CHS shall publicize the existence

of the Ethics HOTLINE (e.g., e-mail to employees or post hotline number in prominent common areas).

Pursuant to the Corporate Compliance Program, the Confidential Disclosure Program shall emphasize a non-retribution, non-retaliation policy, and shall include a reporting mechanism for anonymous, confidential communication. Upon receipt of a disclosure, the Corporate Compliance Officer (or designee) shall gather the information in such a way as to elicit all relevant information from the disclosing individual. The Corporate Compliance Officer (or designee) shall make a preliminary good faith inquiry into the allegations set forth in every disclosure to ensure that he or she has obtained all of the information necessary to determine whether a further review should be conducted. For any disclosure that is sufficiently specific so that it reasonably (i) permits a determination of the appropriateness of the alleged improper practice; and (ii) provides an opportunity for taking corrective action, CHS shall conduct an internal review of the allegations set forth in such a disclosure and ensure that proper follow-up is conducted.

The Corporate Compliance Officer shall maintain a Confidential Disclosure Log, which shall include a record and summary of each allegation received, the status of the respective investigations, and any corrective action taken in response to the investigation.

F. INELIGIBLE PERSONS

1. DEFINITION. For purposes of this CCA, an "Ineligible Person" shall be any individual or entity who: (i) is currently excluded, suspended, debarred or otherwise ineligible to participate in the Federal health care programs; or (ii) has been convicted of a criminal offense related to the provision of health care items or services and has not been reinstated in the Federal health care programs after a period of exclusion, suspension, debarment, or ineligibility.

2. SCREENING REQUIREMENTS. CHS shall not hire or engage as contractors any Ineligible Person. To prevent hiring or contracting with any Ineligible Person, CHS shall screen all prospective employees and prospective contractors prior to engaging their services by: (i) requiring applicants to disclose whether they are Ineligible Persons, and (ii) reviewing the General Services Administration's List of Parties Excluded from Federal Programs (available through the internet at <http://www.arnet.gov/epl>) and the HHS/OIG List of Excluded Individuals/Entities (available through the Internet at <http://www.dhhs.gov/oig>) (these lists will hereinafter be referred to as the "Exclusion Lists").

3. REVIEW AND REMOVAL REQUIREMENT. Within 120 days of the effective date of this CCA, CHS will review its list of current employees and contractors against the Exclusion Lists. Thereafter, CHS will review the list annually. If CHS has notice that an employee or contractor has become an Ineligible Person, CHS will remove such person from responsibility for, or involvement with, CHS's business operations related to the Federal health care programs and shall remove such person from any position for which the person's salary or the items or services rendered, ordered, or prescribed by the person are paid in whole or part, directly or indirectly, by Federal health care programs or otherwise with Federal funds at least until such time as the person is reinstated into participation in the Federal health care programs.

4. PHYSICIANS WITH STAFF PRIVILEGES. Prior to allowing a physician to begin performing services at a CHS hospital after the effective date of this CCA, CHS shall screen in the manner described in section III.F.2 above to determine if the physician is an Ineligible Person. Furthermore, CHS shall review its list of physicians who are allowed to perform services at any CHS hospital against the Exclusion Lists within 120 days of the effective date of this CCA and at least annually thereafter. If such a physician is an Ineligible Person, CHS shall ensure that the physician does not provide, order, or prescribe any items or services payable in whole or in part by any Federal health care program. In addition to any other appropriate measures, CHS shall ensure that any physician who is an Ineligible Person is not "on call" at any CHS hospital.

5. PENDING CHARGES AND PROPOSED EXCLUSIONS. If CHS has notice that an employee or contractor is charged with a criminal offense related to any Federal health care program, or is proposed for exclusion during his or her employment or contract, CHS shall take all appropriate actions to ensure that the responsibilities of that employee or contractor do not adversely affect the quality of care rendered to any patient or resident, or the accuracy of any claims submitted to any Federal health care program.

G. NOTIFICATION OF PROCEEDINGS

Within 30 days of discovery, CHS shall notify OIG, in writing, of any ongoing investigation or legal proceeding conducted or brought by a governmental entity or its agents involving an allegation that CHS has committed a crime or has engaged in fraudulent activities or any other knowing misconduct. This notification shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation or legal proceeding. CHS shall also provide written notice to OIG within 30 days of the resolution of the matter, and shall provide OIG with a description of the findings and/or results of the proceedings, if any.

H. REPORTING

1. REPORTING OF OVERPAYMENTS. If, at any time, CHS identifies or learns of any billing, coding or other policies, procedures and/or practices that result in an overpayment, CHS shall notify the payer (e.g., Medicare fiscal intermediary or carrier) within 30 days of discovering the overpayment and take remedial steps within 60 days of discovery (or such additional time as may be agreed to by the payor) to correct the problem, including preventing the underlying problem and the overpayments from recurring. Notification to the payor should be done pursuant to a form similar to the Overpayment Refund Form, provided as Attachment A to this CCA.

2. REPORTING OF MATERIAL DEFICIENCIES. If CHS determines that there is a material deficiency, CHS shall notify the OIG within 30 days of making the determination that the material deficiency exists. The report to the OIG shall include the following information:

- a. If the material deficiency results in an overpayment, the report to the OIG shall be made at the same time as the notification to the

payor required in Section H.1, and shall include all of the information on the Overpayment Refund Form, as well as:

- (i) the payor's name, address, and contact person where the overpayment was sent; and
 - (ii) the date of the check and identification number (or electronic transaction number) on which the overpayment was repaid;
- b. a complete description of the material deficiency, including the relevant facts, persons involved, and legal and program authorities;
 - c. CHS's actions to correct the material deficiency, and
 - d. any further steps CHS plans to take to address such material deficiency and prevent it from recurring.

3. DEFINITION OF "OVERPAYMENT." For purposes of this CCA, an "overpayment" shall mean the amount of money CHS has received in excess of the amount due and payable under the Federal health care programs' statutes, regulations or program directives, including carrier and intermediary instructions.

4. DEFINITION OF "MATERIAL DEFICIENCY." For purposes of this CCA, a "material deficiency" means anything that involves:

- a. a substantial overpayment relating to any Federal health care program; or
- b. a matter that a reasonable person would consider a potential violation of criminal, civil, or administrative laws applicable to any Federal health care program.

A material deficiency may be the result of an isolated event or a series of occurrences.

IV. NEW BUSINESS UNITS OR LOCATIONS

In the event that CHS purchases or establishes new business units after the effective date of this CCA, CHS shall notify OIG of this fact within 30 days of the date of purchase or establishment. This notification shall include the location of the new operation(s), telephone number, facsimile number, Federal health care program provider number(s) (if any), and the corresponding payor(s) (contractor specific) that has issued each provider number. All Covered Persons at such locations shall be subject to the requirements in this CCA that apply to new Covered Persons (e.g., completing affirmations and certifications and undergoing training).

V. ANNUAL REPORTS

CHS shall submit to OIG Annual Reports with respect to the status and findings of CHS's compliance activities.

A. FIRST ANNUAL REPORT

The first Annual Report shall include:

1. any change in the name, address, telephone number and position description of the Corporate Compliance Officer required by Section III.A.1 from the information provided on pages three and four of Community Health's Corporate Compliance Program as adopted on April 28, 1999 or from the information provided in Section VI of this CCA;
2. any change in the names and positions of the members of the Corporate Compliance Work Group required by Section III.A.2 from the information provided on page five of Community Health's Corporate Compliance Program as adopted on April 28, 1999;
3. a copy of the Ethics and Conduct Policy required by Section III.B.1;
4. a summary of the Policies and Procedures required by Section III.B.2;
5. a description of the training programs required by Section III.C including a description of the targeted audiences and a schedule of when the training sessions were held, as well as a list of Covered Persons exempted from the Specific Training requirements who have received the above-required Specific Training, or its equivalent, within 12 months prior to the effective date of this CCA as well as the date(s) and topics of the training received by those Covered Persons;
6. a certification by the Corporate Compliance Officer that:
 - a. all Covered Persons have completed the Ethics and Conduct Policy affirmation required by Section III.B.1;
 - b. the Policies and Procedures required by Section III.B.2 have been developed, are being implemented, and have been distributed to all members of the Corporate Compliance Working Group and to all members of the Facility Compliance Committees;
 - c. all Covered Persons (other than those exempted and identified through item 5 of the First Annual Report, above) have completed the training and executed the certifications required by Section III.C; and

- d. CHS has complied with its obligations under the Settlement Agreement: (i) not to resubmit to any Federal health care program payors any previously denied claims related to the conduct addressed in the Settlement Agreement, and its obligation not to appeal any such denials of claims, and (ii) not to charge to or otherwise seek payment from federal or state payors for unallowable costs (as defined in the Settlement Agreement) and its obligation to identify and adjust any past charges of unallowable costs;
7. a copy of CHS's policies regarding the Confidential Disclosure Program required by Section III.H;
8. the identity of the Independent Review Organization(s) engaged by CHS for the DRG Reviews and a detailed summary of the reports prepared pursuant to the DRG Reviews, including the percentage error rates for each DRG reviewed at each hospital and a description of the methodologies used;
9. the identity of the Independent Review Organization engaged for the Compliance Engagement and complete copy of the report prepared pursuant to the Compliance Engagement, including a copy of the methodology used;
10. CHS's response/corrective action plan to any issues raised by the Independent Review Organization(s);
11. a summary of material deficiencies, and corresponding corrective action plans, identified and reported throughout the course of the previous twelve (12) months pursuant to III.H;
12. a report of the aggregate overpayments that have been returned to the Federal health care programs. Overpayment amounts should be broken down into the following categories: Medicare, Medicaid (report each applicable state separately), and other Federal health care programs;
13. a copy of the Confidential Disclosure Log required by Section III.E;
14. a description of any personnel actions (other than hiring) taken by CHS as a result of the obligations in Section III.F, and the name, title, and responsibilities of any person that falls within the ambit of Section III.F.4, and the actions taken in response to the obligations set forth in that Section;
15. a summary describing any ongoing investigation or legal proceeding conducted or brought by a governmental entity involving an allegation that

CHS has committed a crime or has engaged in fraudulent activities, which have been reported pursuant to Section III.G. The statement shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation, legal proceeding or requests for information; and

16. a list of all of CHS's locations (including locations and mailing addresses), the corresponding name under which each location is doing business, the corresponding telephone numbers and facsimile numbers, each location's Federal health care program supplier number(s), and the name, address, and telephone number of the payor (specific contractor) that issued each provider identification number.

B. SECOND AND THIRD ANNUAL REPORTS

The second and third Annual Reports shall include the following:

1. any change in the identity or position description of the Corporate Compliance Officer or the members of the Corporate Compliance Working Group described in Section III.A;
2. a certification by the Corporate Compliance Officer that:
 - a. all Covered Persons have completed the annual Ethics and Conduct Policy affirmation required by Section III.B.1;
 - b. all Covered Persons have completed the training and executed the certification required by Section III.C; and
 - c. CHS has complied with its obligations under the Settlement Agreement: (i) not to resubmit to any Federal health care program payors any previously denied claims related to the conduct addressed in the Settlement Agreement, and its obligation not to appeal any such denials of claims, and (ii) not to charge to or otherwise seek payment from federal or state payors for unallowable costs (as defined in the Settlement Agreement) and its obligation to identify and adjust any past charges of unallowable costs;
3. notification of any changes or amendments to the Policies and Procedures required by Section III.B and the reasons for such changes (E.G., change in contractor policy);
4. the identity of the Independent Review Organization(s) engaged by CHS for the DRG Reviews and a detailed summary of the reports prepared pursuant to the DRG Reviews, including the percentage error rates for each DRG reviewed at each hospital and a description of the

methodologies used, and a complete copy of the report prepared pursuant to the Compliance Engagement (if required), including a copy of the methodology used;

5. CHS's response/corrective action plan to any issues raised by the Independent Review Organization(s);
6. a summary of material deficiencies, and corresponding corrective action plans, identified and reported throughout the course of the previous twelve (12) months pursuant to III.H;
7. a report of the aggregate overpayments that have been returned to the Federal health care programs. Overpayment amounts should be broken down into the following categories: Medicare, Medicaid (report each applicable state separately) and other Federal health care programs;
8. a copy of the Confidential Disclosure Log required by Section III.E;
9. a description of any personnel actions (other than hiring) taken by CHS as a result of the obligations in Section III.F, and the name, title, and responsibilities of any person that falls within the ambit of Section III.F.4, and the actions taken in response to the obligations set forth in that Section;
10. a summary describing any ongoing investigation or legal proceeding conducted or brought by a governmental entity involving an allegation that CHS has committed a crime or has engaged in fraudulent activities, which have been reported pursuant to Section III.G. The statement shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation, legal proceeding or requests for information;
11. a description of all changes to the most recently provided list (as updated) of CHS's locations (including locations and mailing addresses), the corresponding name under which each location is doing business, the corresponding phone numbers and fax numbers, each location's Federal health care program provider identification number(s), and the payor (specific contractor) that issued each provider identification number,

C. CERTIFICATIONS

All Annual Reports shall include a certification by the Corporate Compliance Officer under penalty of perjury, that: (1) CHS is in compliance with all of the requirements of this CCA, to the best of his or her knowledge; and (2) the Corporate Compliance Officer has reviewed the Report and has made reasonable inquiry regarding its content and believes that, upon such inquiry, the information is accurate and truthful.

D. ANNUAL REPORT DUE DATES

The first Annual Report shall be received by the OIG no later than one year and 30 days after the effective date of this CCA. The second and third Annual Reports shall be received by the OIG no later than two years and 30 days, and three years and 30 days, respectively, after the effective date of this CCA.

VI. NOTIFICATIONS AND SUBMISSION OF REPORTS

Unless otherwise stated in writing subsequent to the effective date of this CCA, all notifications and reports required under this CCA shall be submitted to the entities listed below:

OIG:

Civil Recoveries Branch - Compliance Unit
Office of Counsel to the Inspector General
Office of Inspector General
U.S, Department of Health and Human Services
Cohen Building, Room 5527
330 Independence Avenue, SW
Washington, DC 20201
Telephone: (202) 619-2078
Facsimile: (202) 205-0604

CHS:

Martin G. Schweinhart
Corporate Compliance Officer
Community Health Systems, Inc.
155 Franklin Road, Suite 400
Brentwood, TN 37027-4600
Telephone: (615) 376-3412
Facsimile: (615) 309-5142

VII. OIG INSPECTION, AUDIT AND REVIEW RIGHTS

In addition to any other rights OIG may have by statute, regulation, or contract, OIG or its duly authorized representative(s), may examine CHS's books, records, and other documents and supporting materials and/or conduct an on-site review of any of CHS's locations for the purpose of verifying and evaluating: (a) CHS's compliance with the terms of this CCA; and (b) CHS's compliance with the requirements of the Federal health care programs in which it participates. The documentation described above shall be made available by CHS to OIG or its duly authorized representative(s) at all reasonable times for inspection, audit or reproduction. Furthermore, for purposes of this provision, OIG or its duly authorized representative(s) may interview any of CHS's employees, contractors, or agents who consent to be interviewed at the individual's place of business during normal business hours or at such other place and time as may be mutually agreed upon between the individual and OIG. CHS agrees to assist OIG in

contacting and arranging interviews with such individuals upon OIG's request. CHS's employees may elect to be interviewed with or without a representative of CHS present.

VIII. DOCUMENT AND RECORD RETENTION

Pursuant to the Corporate Compliance Program, CHS shall maintain for inspection all documents and records relating to reimbursement from the Federal health care programs or to compliance with this CCA, for four (4) years (or longer if otherwise required).

IX. DISCLOSURES

Subject to HHS's Freedom of Information Act ("FOIA") procedures, set forth in 45 C.F.R. Part 5; the OIG shall make a reasonable effort to notify CHS prior to any release by OIG of information submitted by CHS pursuant to its obligations under this CCA and identified upon submission by CHS as trade secrets, commercial or financial information and privileged and confidential under the FOIA rules. CHS shall refrain from identifying any information as trade secrets, commercial or financial information and privileged and confidential that does not meet the criteria for exemption from disclosure under FOIA.

X. BREACH AND DEFAULT PROVISIONS

CHS is expected to fully and timely comply with all of the obligations herein throughout the term of this CCA or other time frames herein agreed to.

A. STIPULATED PENALTIES FOR FAILURE TO COMPLY WITH CERTAIN OBLIGATIONS

As a contractual remedy, Community Health and OIG hereby agree that failure to comply with certain obligations set forth in this CCA may lead to the imposition of the following monetary penalties (hereinafter referred to as "Stipulated Penalties") in accordance with the following provisions,

1. A Stipulated Penalty of \$2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day, beginning 120 days after the effective date of this CCA and concluding at the end of the term of this CCA, CHS fails to have in place any of the following:

- a. a Corporate Compliance Officer;
- b. a Corporate Compliance Working Group;
- c. Facility Compliance Chairs and Facility Compliance Committees at each CHS hospital;
- d. a written Ethics and Conduct Policy;
- e. written Policies and Procedures;

- f. a training program, and
- g. a Confidential Disclosure Program;

2. A Stipulated Penalty of \$2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day CHS fails to meet any of the deadlines to submit the Annual Reports to the OIG.

3. A Stipulated Penalty of \$2,000 (which shall begin to accrue on the date the failure to comply began) for each day:

a. after CHS hires or enters into a contract with an Ineligible Person after that person has been listed by a federal agency as excluded, debarred, suspended or otherwise ineligible for participation in the Medicare, Medicaid or any other Federal health care program (as defined in 42 U.S.C. ss. 1320a-7b(f) (this Stipulated Penalty shall not be demanded for any time period during which CHS can demonstrate that it did not discover the person's exclusion or other ineligibility after making a reasonable inquiry (as described in Section III.F) as to the status of the person);

b. CHS employs or contracts with an Ineligible Person and that person: (i) has responsibility for, or involvement with, CHS's business operations related to the Federal health care programs or (ii) is in a position for which the person's salary or the items or services rendered, ordered, or prescribed by the person are paid in whole or part, directly or indirectly, by Federal health care programs or otherwise with Federal funds (this Stipulated Penalty shall not be demanded for any time period during which CHS can demonstrate that it did not discover the person's exclusion or other ineligibility after making a reasonable inquiry (as described in Section III.F) as to the status of the person); or

c. a physician who performs services at any CHS hospital who is an Ineligible Person provides, orders, or prescribes any items or services payable in whole or in part by any Federal health care program to CHS (this Stipulated Penalty shall not be demanded for any time period during which CHS can demonstrate that it did not discover the physician's exclusion or other ineligibility after making a reasonable inquiry (as described in section III.F.) as to the status of the physician).

4. A Stipulated Penalty of \$1,500 (which shall begin to accrue on the date the CHS fails to grant access) for each day CHS fails to grant access to the information or documentation as required in Section VII of this CCA.

5. A Stipulated Penalty of \$1,000 (which shall begin to accrue 10 days after the date that OIG provides notice to CHS of the failure to comply; no penalties shall be imposed under this section X.A.5 if CHS complies fully and adequately with its obligations within 10 days of the OIG's notice of the failure to comply) for each day CHS fails to comply fully and adequately with any obligation of this CCA. In its notice to CHS, the OIG shall state the specific grounds for its determination that CHS has failed to comply fully and adequately with the CCA obligation(s) at issue.

B. PAYMENT OF STIPULATED PENALTIES

1. DEMAND LETTER. Upon a finding that CHS has failed to comply with any of the obligations described in Section X-A and determining that Stipulated Penalties are appropriate, OIG shall notify CHS by personal service or certified mail of (a) CHS's failure to comply; and (b) the OIG's exercise of its contractual right to demand payment of the Stipulated Penalties (this notification is hereinafter referred to as the "Demand Letter").

Within fifteen (15) days of the date of the Demand Letter, CHS shall either (a) cure the breach to the OIG's satisfaction and pay the applicable stipulated penalties; or (b) request a hearing before an HHS administrative law judge ("ALJ") to dispute the OIG's determination of noncompliance, pursuant to the agreed upon provisions set forth below in Section X.D. In the event CHS elects to request an ALJ hearing, the Stipulated Penalties shall continue to accrue until CHS cures, to the OIG's satisfaction, the alleged breach in dispute. Failure to respond to the Demand Letter in one of these two manners within the allowed time period shall be considered a material breach of this CCA and shall be grounds for exclusion under Section X.C.

2. TIMELY WRITTEN REQUESTS FOR EXTENSIONS. CHS may submit a timely written request for an extension of time to perform any act or file any notification or report required by this CCA. Notwithstanding any other provision in this Section, if OIG grants the timely written request with respect to an act, notification, or report, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until one day after CHS fails to meet the revised deadline set by the OIG. Notwithstanding any other provision in this Section, if OIG denies such a timely written request, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until two (2) business days after CHS receives OIG's written denial of such request. A "timely written request" is defined as a request in writing received by OIG at least five (5) business days prior to the date by which any act is due to be performed or any notification or report is due to be filed.

3. FORM OF PAYMENT. Payment of the Stipulated Penalties shall be made by certified or cashier's check, payable to "Secretary of the Department of Health and Human Services," and submitted to OIG at the address set forth in Section VI.

4. INDEPENDENCE FROM MATERIAL BREACH DETERMINATION. Except as otherwise noted, these provisions for payment of Stipulated Penalties shall not affect or otherwise set a standard for the OIG's determination that CHS has materially breached this CCA, which decision shall be made at the OIG's discretion and governed by the provisions in Section X.C, below.

C. MONETARY PENALTY FOR MATERIAL BREACH OF THIS CCA

1. DEFINITION OF "MATERIAL BREACH." A material breach of this CCA means:

- a. a failure by CHS to report a material deficiency, take corrective action and pay the appropriate refunds, as provided in Section III.H;

- b. repeated or flagrant violations of the obligations under this CCA, including, but not limited to, the obligations addressed in Section X.A of this CCA;
- c. a failure to respond to a Demand Letter concerning the payment of Stipulated Penalties in accordance with Section X.B above; or
- d. a failure to retain and use an Independent Review Organization for review purposes in accordance with Section III.D.

2. NOTICE OF MATERIAL BREACH AND INTENT TO COLLECT MATERIAL BREACH PENALTY. Community Health and OIG agree that a material breach of this CCA by CHS constitutes grounds for OIG to impose an enhanced stipulated penalty that is separate and apart from the Stipulated Penalties described in Sections X.A-B, above. This monetary penalty (hereinafter referred to as the "Material Breach Penalty") shall be \$25,000 per day. Upon a determination by OIG that CHS has materially breached this CCA and that a Material Breach Penalty should be imposed, the OIG shall notify CHS by certified mail of (a) CHS's material breach; and (b) OIG's intent to exercise its contractual right to impose the Material Breach Penalty (this notification is hereinafter referred to as the "Notice of Material Breach").

3. OPPORTUNITY TO CURE. CHS shall have thirty five (35) days from the date of the Notice of Material Breach to demonstrate to the OIG's satisfaction that:

- a. CHS is in full compliance with this CCA;
- b. the alleged material breach has been cured; or
- c. the alleged material breach cannot be cured within the 35-day period, but that: (i) CHS has begun to take action to cure the material breach, (ii) CHS is pursuing such action with due diligence, and (iii) CHS has provided to OIG a reasonable timetable for curing the material breach.

4. PENALTY LETTER. If at the conclusion of the thirty five (35) day period, CHS fails to satisfy the requirements of Section X.C.3, OIG may impose the Material Breach Penalty on CHS, and the Material Breach Penalty shall begin to accrue on that day. OIG will notify CHS in writing of its determination to impose the Material Breach Penalty (this letter shall be referred to hereinafter as the "Material Breach Penalty Letter"). Within fifteen (15) days of receipt of the Material Breach Penalty Letter, CHS shall either: (a) cure the material breach to OIG's satisfaction and pay the applicable Material Breach Penalty; or (b) request a hearing before an HHS administrative law judge ("ALJ") to dispute OIG's determination of material breach, pursuant to the agreed upon provisions set forth below in Section X.D.

D. DISPUTE RESOLUTION

1. REVIEW RIGHTS. Upon OIG's delivery to CHS of its Demand Letter or of its Material Breach Penalty Letter, and as an agreed-upon contractual remedy for the resolution of disputes arising under the obligation of this CCA, CHS shall be afforded certain review rights comparable to the ones that are provided in 42 U.S.C. ss. 1320a-7(f) and 42 C.F.R. Part 1005 as if they applied to the Stipulated Penalty or Material Breach Penalty sought pursuant to this CCA. Specifically, OIG's determination to demand payment of a Stipulated Penalty or of a Material Breach Penalty shall be subject to review by an ALJ and, in the event of an appeal, the Departmental Appeals Board ("DAB"), in a manner consistent with the provisions in 42 C.F.R. ss. 1005.2-1005.21. Notwithstanding the language in 42 C.F.R. ss. 1005.2(c), the request for a hearing involving a Stipulated Penalty or a Material Breach Penalty shall be made within fifteen (15) days of the date of the Demand Letter or the Material Breach Penalty Letter.

2. STIPULATED PENALTIES REVIEW. Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding for stipulated penalties under this CCA shall be (a) whether CHS was in full and timely compliance with the obligations of this CCA for which OIG demands payment; and (b) the period of noncompliance, CHS shall have the burden of proving its full and timely compliance and the steps taken to cure the noncompliance, if any. If the ALJ finds for OIG with regard to a finding of a breach of this CCA and orders CHS to pay Stipulated Penalties, such Stipulated Penalties shall become due and payable 20 days after the ALJ issues such a decision notwithstanding that CHS may request review of the ALJ decision by the DAB,

3. MATERIAL BREACH REVIEW. Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding regarding imposition of a Material Breach Penalty shall be: (a) whether CHS was in material breach of this CCA; (b) whether such breach was continuing on the date of the Material Breach Penalty Letter, (c) the number of days that CHS was in material breach of this CCA; and (d) whether the alleged material breach could not have been cured within the 35 day period, but that (i) CHS had begun to take action to cure the material breach within that period, (ii) CHS has pursued and is pursuing such action with due diligence, and (iii) CHS provided to OIG within that period a reasonable timetable for curing the material breach.

If the ALJ finds for OIG with regard to a finding of a material breach of this CCA and orders CHS to pay a Material Breach Penalty, such Material Breach Penalty shall become due and payable 20 days after the ALJ issues such a decision notwithstanding that CHS may request review of the ALJ decision by the DAB.

4. FINALITY OF DECISION. The review by an ALJ or DAB provided for above shall not be considered to be an appeal right arising under any statutes or regulations. Consequently, the parties to this CCA agree that the DAB's decision (or the ALJ's decision if not appealed) shall be considered final for all purposes under this CCA and CHS agrees to waive any right it may have to appeal the decision administratively, judicially or otherwise seek review by any court or other adjudicative forum.

XI. EFFECTIVE AND BINDING AGREEMENT

Consistent with the provisions in the Settlement Agreement pursuant to which this CCA is entered, and into which this CCA is incorporated, CHS and OIG agree as follows:

A. This CCA shall be binding on the successors, assigns, and transferees of Community Health;

B. This CCA shall become final and binding on the date the final signature is obtained on the CCA;

C. Any modifications to this CCA shall be made with the prior written consent of the parties to this CCA; and

D. The undersigned Community Health signatories represent and warrant that they are authorized to execute this CCA. The undersigned OIG signatory represents that he is signing this CCA in his official capacity and that he is authorized to execute this CCA.

ON BEHALF OF COMMUNITY HEALTH SYSTEMS, INC.

WAYNE T. SMITH
Chief Executive Officer
Community Health Systems, Inc.

DATE

RACHEL A. SEIFERT, ESQ.
Vice President and General Counsel
Community Health Systems, Inc.

DATE

RICHARD SAUBER, ESQ.
Fried, Frank, Shriver & Jacobson
Counsel for Community Health Systems, Inc.

DATE

ON BEHALF OF THE OFFICE OF INSPECTOR GENERAL
OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

LEWIS MORRIS
Assistant Inspector General for Legal Affairs
Office of Inspector General
U. S. Department of Health and Human Services

DATE

SETTLEMENT AGREEMENT

I. PARTIES

This Settlement Agreement ("Agreement") is entered into between the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General ("OIG-HHS") of the Department of Health and Human Services ("HHS"), and TRICARE Management Activity ("TMA") through its General Counsel (collectively the "United States"); the States of Illinois, New Mexico, South Carolina, Tennessee, Texas, and West Virginia (collectively the "participating States"); and Community Health Systems, Inc. ("CHS"). Collectively, all of the above will be referred to as "the Parties."

II. PREAMBLE

As a preamble to this Agreement, the Parties agree to the following:

A. CHS is a health care provider that owns and operates hospitals, and submitted or caused to be submitted, claims to Medicare, Medicaid, and TRICARE for the inpatient treatment of Medicare, Medicaid, and TRICARE beneficiaries.

B. CHS submitted or caused to be submitted claims for payment to the Medicare Program ("Medicare"), Title XVIII of the Social Security Act, 42 U.S.C. ss.ss. 1395-1395ggg(1999); the Medicaid Program, 42 U.S.C. ss.ss. 1396-1396v (1997); and the TRICARE program (formerly known as the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)), 10 U.S.C. ss.ss. 1071-1106.

C. The Medicare, participating States' Medicaid, and TRICARE programs make payments to a hospital for inpatient treatment rendered to a beneficiary generally based upon the beneficiary's "principal diagnosis," as set forth by the hospital.

D. The Medicare, participating States' Medicaid, and TRICARE programs rely upon participating hospitals to properly indicate the principal diagnosis through the use of standard diagnosis codes.

E. In December 1997, CHS contacted the OIG-HHS and disclosed possible coding problems at CHS.

F. CHS engaged in discussions with OIG-HHS to develop procedures for CHS to perform a self-audit of inpatient payment claims submitted by CHS to the Medicare program that grouped to the following DRGs: 014, 079, 087, 132, 138, 296, 416, and 475 (the "covered DRGs"). CHS then undertook the self-audit and extrapolated the findings.

G. CHS provided the results of its self-audit and extrapolations relating to the covered DRGs to the United States, and the United States has reviewed these results.

H. The United States and the participating States (as to Medicaid) conducted an investigation into inpatient payment claims submitted to Medicare, Medicaid, and TRICARE by CHS hospitals that grouped to the covered DRGs.

I. The United States contends that it has certain civil claims against CHS under the False Claims Act, 31 U.S.C. ss.ss. 3729-3733, and other federal statutes and/or common law doctrines as more specifically identified in Paragraph 5 below, for engaging in the following alleged conduct: the CHS hospitals listed on Attachment A, for the time periods described in Attachment A, submitted or caused to be submitted to Medicare, Medicaid, and TRICARE claims for certain ICD-9-CM diagnosis codes for inpatient admissions grouping to the covered DRGs that were not supported by the patients' medical records and as a consequence received greater reimbursement than that to which the hospitals were otherwise entitled for those admissions (hereinafter referred to as the "Covered Conduct"). The Covered Conduct refers only to those hospitals listed in Attachment A for the time periods described therein.

J. The United States also contends that it has certain administrative claims against CHS under the provisions for permissive exclusion from Medicare, Medicaid and other federal health care programs, 42 U.S.C. ss. 1320a-7(b), and the provisions for civil monetary penalties, 42 U.S.C. ss. 1320a-7a, for the Covered Conduct.

K. The participating States also contend that they have certain claims against CHS under their respective laws for claims to the Medicaid program concerning the Covered Conduct.

L. CHS has provided documents and information to the United States in response to the government's investigation of the Covered Conduct, and CHS represents that such response has been truthful, accurate, and complete to the best of its knowledge and ability.

M. This Settlement Agreement is made in compromise of disputed claims. Neither this Settlement Agreement nor any action taken pursuant to this Agreement shall constitute an admission of wrongdoing or fault of any kind on the part of CHS.

N. CHS does not admit the contentions of the United States or the participating States as set forth above.

O. To avoid the delay, uncertainty, inconvenience and expense of protracted litigation of these claims, the Parties reach a full and final settlement as set forth below.

III. TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the mutual promises, covenants, and obligations set forth below, and for good and valuable consideration as stated herein, the Parties agree as follows:

1. CHS agrees to pay to the United States \$30,494,749.51 plus interest as follows: CHS agrees to make payment by electronic funds transfer pursuant to written instructions to be provided by the Commercial Litigation Branch, Civil Division, Department of Justice. CHS agrees to make this electronic funds transfer no later than ten (10) business days after the date that the United States hand-delivers to the District of Columbia offices of Fried, Frank, Harris, Shriver & Jacobson, as counsel to CHS, a copy of the fully-executed Agreement. CHS agrees to pay an additional amount of \$409,876.05 plus interest representing recovery for the participating States' share of Medicaid; such payment shall be made no later than ten (10) business days after the date that the United States hand-delivers to the District of Columbia offices of Fried, Frank,

Harris, Shriver & Jacobson, as counsel to CHS, a copy of the fully-executed Agreement and pursuant to written instructions provided by the National Association of Medicaid Fraud Control Units. Interest shall be at the post-judgment interest rate (as set forth in 28 U.S.C. ss. 1961(a)) in effect as of February 3, 2000, and shall be computed from December 1, 1999 through the date of payment under this Paragraph. The payment to the United States and to the participating States together, including interest, constitutes the "Settlement Amount."

2. CHS agrees to cooperate fully and in good faith with the United States in the administrative, civil or criminal investigation or prosecution of any person concerning the Covered Conduct, and concerning similar matters involving other hospitals and others, by providing accurate, truthful, and complete information whenever, wherever, to whomever and in whatever form the United States reasonably may request. Upon reasonable notice, CHS will make reasonable efforts to facilitate access to, and encourage the cooperation of, its directors, officers, and employees for interviews and testimony, consistent with the rights and privileges of such individuals, and will furnish to the United States, upon reasonable request, all non-privileged documents and records in its possession, custody or control relating to the Covered Conduct. Nothing in this Paragraph, however, affects any privilege that might be available to CHS or any regulatory or statutory obligation of CHS, or CHS's ability to object to the request on the grounds of such privilege or obligation; the United States reserves its right to contest the assertion of any such privilege or obligation by CHS.

3. CHS has entered into a Corporate Compliance Agreement with OIG-HHS, attached as Attachment B, which is incorporated into this Agreement by reference. CHS will implement its obligations under the Corporate Compliance Agreement as set forth in the Corporate Compliance Agreement.

4. CHS releases the United States, HHS, TRICARE, the participating States and each of their agencies, officers, agents, employees, and contractors and their employees, from any and all claims, causes of action, adjustments, and set-offs of any

kind arising out of or pertaining to the Covered Conduct, including the investigation of the Covered Conduct and this Agreement.

5. Subject to the exceptions in Paragraphs 10 and 15 below, in consideration of the obligations of CHS set forth in this Agreement, conditioned upon CHS's payment in full of the Settlement Amount, the United States (on behalf of itself, its officers, agents, and its agencies and departments referenced above in Paragraph 4), agrees to release CHS, its predecessors, successors, assigns, and affiliates and those hospitals listed in Attachment A (collectively, "the Released Parties") from any civil or administrative monetary claim the United States has or may have for the Covered Conduct for the time period specified for each facility listed in Attachment A under the False Claims Act, 31 U.S.C. ss.ss. 3729-3733; the Civil Monetary Penalties Law, 42 U.S.C. ss. 1320a-7a; the Program Fraud Civil Remedies Act, 31 U.S.C. ss.ss. 3801-3812; or the common law theories of payment by mistake, unjust enrichment, breach of contract and fraud. The United States expressly reserves any claims against any entities and individuals other than claims against the Released Parties for the Covered Conduct.

6. Subject to the exceptions in Paragraphs 10 and 15 below, in consideration of the obligations of CHS set forth in this Agreement, conditioned upon CHS's payment in full of the Settlement Amount, the participating States (on behalf of themselves, their officers, agents, and their agencies and departments) agree to release the Released Parties from any civil or administrative monetary claim the participating States have or may have under State law for the time period specified for each facility listed in Attachment A for the Covered Conduct, including any claim under a state false claims or whistleblower law or any other common law, statutory or administrative theory. The participating States expressly reserve any claims against any entities and individuals other than claims against the Released Parties for the Covered Conduct.

7. In consideration of the obligations of CHS set forth in this Agreement, including the Corporate Compliance Agreement at Attachment B, and conditioned upon CHS's payment in full of the Settlement Amount, the OIG-HHS agrees to release and

refrain from instituting, directing or maintaining any administrative claim or any action seeking exclusion from Medicare, Medicaid or other federal health care programs (as defined in 42 U.S.C. ss. 1320a-7b(f)) against the Released Parties under 42 U.S.C. ss. 1320a-7a (Civil Monetary Penalties Law), or 42 U.S.C. ss. 1320a-7(b) (permissive exclusion), for the time period specified for each facility listed in Attachment A for the Covered Conduct, except as reserved in this Paragraph. The OIG-HHS expressly reserves all rights to comply with any statutory obligations to exclude CHS or others from Medicare, Medicaid or other federal health care programs under 42 U.S.C. ss. 1320a-7(a) (mandatory exclusion). Nothing in this Paragraph precludes the OIG-HHS from taking action against entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 10 or 15, below. The OIG-HHS expressly reserves any claims against any entities and individuals other than the Released Parties for the Covered Conduct.

8. In consideration of the obligations of CHS set forth in this Agreement, and conditioned upon CHS's payment in full of the Settlement Amount, the TMA agrees to release and refrain from instituting, directing, or maintaining any administrative claim or any action seeking exclusion from the TRICARE Program against CHS under 32 C.F.R. ss. 199.9 for the time period specified for each facility listed in Attachment A for the Covered Conduct, except as reserved in Paragraph 10 or 15 below. The TMA expressly reserves authority to exclude CHS from the TRICARE program under 32 C.F.R. H 199.9 (f)(1)(i)(A), (f)(1)(i)(B), (f)(1)(i)(D), and (f)(1)(iii), based upon the Covered Conduct. Nothing in this Paragraph precludes the TRICARE program from taking action against entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 10 or 15, below. The TMA expressly reserves any claims against any entities and individuals other than the Released Parties for the Covered Conduct.

9. The participating States recognize that this Agreement is intended to allow CHS to continue to participate in the Medicaid program and is intended as a bar to any action initiated by the participating States to impose Medicaid program exclusion upon

CHS on the basis of the Covered Conduct for the time period specified for each facility listed in Attachment A, except as reserved in Paragraph 10 or 15 below. The Parties recognize, however, that participation in the Tennessee Medicaid/TennCare program is dependent upon acceptance into a network by a Managed Care Organization ("MCO") and that MCOs have discretion, so long as consistent with federal and state law, to set policies for participation in their networks. The Office of the Tennessee Attorney General will not attempt to influence any MCO to exclude CHS from participation in an MCO network due to the Covered Conduct. The State of Tennessee states that it does not have the authority to release CHS from any claims or actions for debarment or otherwise which may be asserted by private insurers or similar entities such as MCOs and Behavioral Health Organizations that are paid on a capitated basis for providing health care to the State's Medicaid/TennCare recipients. However, Department of Health, TennCare Bureau will not exclude CHS from participation in the Medicaid/TennCare program based upon the Covered Conduct unless required to do so by the United States Department of Health and Human Services.

10. Notwithstanding any term of this Agreement, specifically reserved and excluded from the scope and terms of this Agreement as to any entity or person (including the Released Parties) are any and all of the following:

(a) Any civil, criminal or administrative claims arising under Title 26, U.S. Code (Internal Revenue Code) or any state revenue laws;

(b) Any criminal liability;

(c) Except as explicitly otherwise stated in this Agreement, any administrative liability, including mandatory exclusion from federal health care programs;

(d) Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;

(e) Any claims based upon such obligations as are created by this Agreement;

(f) Any express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services, provided by CHS;

(g) Any claims based on a failure to deliver items or services billed;

(h) Any claims against any individuals, including officers and employees; however, if such individuals are legally entitled to repayment from CHS, by claim for indemnification, contribution, reimbursement or otherwise as a result of a claim brought by the United States or any other party to this Agreement for the Covered Conduct, the releases provided in Paragraphs 5 and 6 above shall apply to such individuals with respect to that claim;

(i) Claims under any consumer protection Acts or regulations, licensing, certificate of need or similar state regulatory proceedings other than Medicaid recoupment of the participating States; and

(j) Claims asserted in UNITED STATES EX REL. SMITH v. COMMUNITY HEALTH SYSTEMS, INC., Civil Action No. 3-99 0869 (M.D. Tenn.); UNITED STATES EX REL. BLEDSOE v. COMMUNITY HEALTH SYSTEMS, INC., Civil Action No. 1:98-cv-0435-MHS (N.D. Ga.); and the sealed matter identified in the letter dated March 28, 2000 from the United States Department of Justice, Civil Division, to Fried, Frank, Harris, Shriver & Jacobson as attorneys for CHS.

11. CHS waives and will not assert any defenses it may have to any criminal prosecution or administrative action relating to the Covered Conduct, which defenses may be based in whole or in part on a contention that, under the Double Jeopardy or Excessive Fines Clause of the Constitution, this settlement bars a remedy sought in such criminal prosecution or administrative action. CHS agrees that this settlement is not punitive in purpose or effect. Nothing in this Paragraph or any other provision of this Agreement constitutes an agreement by the United States concerning the characterization of the Settlement Amount for purposes of the Internal Revenue Laws, Title 26 of the United States Code or state tax or revenue laws.

12. The Settlement Amount that CHS must pay pursuant to this Agreement by electronic wire transfer pursuant to Paragraph 1 above, will not be decreased as a result of the denial of claims for payment now being withheld from payment by any Medicare carrier or intermediary, TRICARE or any State payer (including state Medicaid Managed Care Organizations ("MCO")), related to the Covered Conduct or the self audit; and CHS agrees not to resubmit to any Medicare carrier or intermediary, TRICARE or any State payer or MCO any previously denied claims related to the Covered Conduct or the self audit, and agrees not to appeal any such denials of claims.

13. CHS agrees that all costs (as defined in the Federal Acquisition Regulations ("FAR") ss. 31.205-47 and in Titles XVIII and XIX of the Social Security Act, 42 U.S.C. ss. 1395-1395ggg (1999) and 1396-1396v(1997), and the regulations promulgated thereunder) incurred by or on behalf of CHS or any of its subsidiaries in connection with: (a) the matters covered by this Agreement, (b) the Government's audit(s) and civil and any criminal investigation(s) of the matters covered by this Agreement, (c) CHS's investigation, self audit, defense, and corrective actions undertaken in response to the Government's audit(s) and civil and any criminal investigation(s) in connection with the matters covered by this Agreement (including attorney's fees and the obligations undertaken pursuant to the Corporate Compliance Agreement incorporated in this Settlement Agreement), (d) the negotiation of this Agreement, including the Corporate Compliance Agreement, and (e) the payments made pursuant to this Agreement, are unallowable costs on Government contracts and under the Medicare Program, Medicaid Program, TRICARE Program, Veterans Affairs Program, and Federal Employee Health Benefits Program (hereafter, "unallowable costs"). These unallowable costs will be separately estimated and accounted for by CHS, and CHS and its subsidiaries will not charge such unallowable costs directly or indirectly to any contracts with the United States or any state Medicaid program, or seek payment for such unallowable costs through any cost report, cost statement, information statement or payment request

submitted by CHS or any of its subsidiaries to the Medicare, Medicaid, TRICARE, VA or FEHBP programs.

14. CHS further agrees that within 60 days of the effective date of this Agreement it will identify to applicable Medicare and TRICARE fiscal intermediaries, carriers and/or contractors, and Medicaid, VA and FEHBP fiscal agents, any unallowable costs (as defined in Paragraph 13) included in payments previously sought from the United States, or any State Medicaid Program or MCO, including, but not limited to, payments sought in any cost reports, cost statements, information reports, or payment requests already submitted by CHS or any of its subsidiaries, and will request, and agree, that such cost reports, cost statements, information reports or payment requests, even if already settled, be adjusted to account for the effect of the inclusion of the unallowable costs. CHS agrees that the United States and participating States will be entitled to recoup from CHS or its subsidiaries any overpayment as a result of the inclusion of such unallowable costs on previously-submitted cost reports, information reports, cost statements or requests for payment. Any payments due after the adjustments have been made shall be paid to the United States or participating States pursuant to the direction of the Department of Justice, and/or the affected agencies or States. The United States and participating States reserve their rights to disagree with any calculations submitted by CHS or any of its subsidiaries on the effect of inclusion of unallowable costs (as defined in Paragraph 13) on CHS or any of its subsidiaries' cost reports, cost statements or information reports. Nothing in this Agreement shall constitute a waiver of the rights of the United States or participating States to examine or reexamine the unallowable costs described in this Paragraph and Paragraph 13.

15. This Agreement is intended to be for the benefit of the Parties only, and by this instrument the Parties do not release any claims against any other person or entity.

16. CHS agrees that it will not seek payment for any of the health care billings covered by this Agreement or the self audit from any health care beneficiaries or their parents or sponsors. CHS waives any causes of action against these beneficiaries or their

parents or sponsors based upon the claims for payment covered by this Agreement or the self audit.

17. Each party to this Agreement will bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

18. CHS represents that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

19. This Agreement is governed by the laws of the United States. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between the United States and CHS under this Agreement will be the United States District Court for the District of Columbia, except that disputes arising under the Corporate Compliance Agreement (attached as Attachment B) shall be resolved exclusively under the dispute resolution provisions set forth in that agreement. The Parties further agree that jurisdiction and venue for any dispute arising between CHS and any participating State will be the State involved in the dispute.

20. This Agreement, including Attachments A and B which are incorporated by reference, constitutes the complete agreement among the Parties and supersedes all prior agreements as to the same subject matter, and such prior agreements shall be null and void and shall have no effect. This Agreement may not be amended except by written consent of the Parties, except that only CHS and the OIG-HHS must agree in writing to modification of the Corporate Compliance Agreement contained in Attachment B.

21. The undersigned individuals signing this Agreement on behalf of CHS represent and warrant that they are authorized to execute this Agreement on behalf of CHS. The undersigned United States signatories and signatories of the participating States represent that they are signing this Agreement in their official capacities and that they are authorized to execute this Agreement.

22. This Agreement is binding on successors, transferees, and assigns.

23. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

24. This Agreement is effective on the date on which the last signatory to the Agreement signs the Agreement.

THE UNITED STATES OF AMERICA

DATED: _____

BY: _____

MICHAEL F. HERTZ
JOYCE R. BRANDA
JAMIE ANN YAVELBERG
TRACY L. HILMER
Civil Division
U.S. Department of Justice

DATED: _____

BY: _____

LEWIS MORRIS
Assistant Inspector General
Office of Counsel to the
Inspector General
Office of Inspector General
United States Department of
Health and Human Services

DATED: _____

BY: _____

ROBERT L. SHEPHERD
Deputy General Counsel
TRICARE Management Activity

PARTICIPATING STATES

ILLINOIS:

DATED: ----- BY: -----
ROBERT SPENCE
Assistant Attorney General

DATED: ----- BY: -----
Ann Patla, Director
Illinois Dept. of Public Aid

NEW MEXICO:

DATED: ----- BY: -----
Sandra K. Watts, Director
Medicaid Fraud Control Unit

DATED: ----- BY: -----
Rumaldo R. Armijo
General Counsel
Human Services Dept.

SOUTH CAROLINA:

DATED: ----- CHARLES MOLONY CONDON
Attorney General

DATED: ----- BY: -----
Richard G. Hepfer
Deputy General Counsel
Dept. of Health and Human
Services

DATED: ----- BY: -----
Charles W. Gambrell, Jr.
Assistant Deputy Attorney General
Director, Medicaid Fraud Control
Unit

TENNESSEE:

DATED: -----

BY: -----
Paul G. Summers
Attorney General

DATED: -----

BY: -----
Dennis J. Garvey
Deputy Attorney General

TEXAS:

DATED: -----

BY: -----
Andy Taylor
Assistant Attorney General

DATED: -----

BY: -----
Scott E. Stephenson, Director
Medicaid Fraud Control Unit

DATED: -----

BY: -----
Don Gilbert, Commissioner
Texas Health and Human Services
Commission

DATED: -----

BY: -----
Marina Henderson
Executive Deputy Commissioner
Legislative and Legal Affairs
Texas Health and Human Services
Commission
Medicaid Fraud Control Unit

WEST VIRGINIA:

DATED: -----

BY: -----
Samuel P. Cook, Director,
Office of Inspector General
Dept. of Health and Human
Services

DATED: -----

BY: -----
Elizabeth S. Lawton, Commissioner
Bureau for Medical Services
Dept. of Health and Human
Services

CHS:

DATED: -----

BY: -----
COMMUNITY HEALTH SYSTEMS, INC.

DATED: -----

BY: -----
FRIED, FRANK, HARRIS, SHRIVER &
JACOBSON
Attorneys for CHS

ATTACHMENT A

PROVIDER NUMBER	HOSPITAL NAME	STATE	START DATE	END DATE
050298	Barstow Community Hospital	CA	1/1/94	12/31/97
110112	Berrien County Hospital	GA	10/1/94	12/31/97
190164	Byrd Regional Memorial Hospital	LA	10/1/94	12/31/97
450296	Charter Reg. Med. Ctr. (Cleveland)	TX	8/1/96	12/31/97
420062	Chesterfield General Hospital	GA	8/1/96	12/31/97
440185	Cleveland Community Hospital	TN	10/1/94	12/31/97
140294	Crossroads Community Hospital	IL	10/1/94	12/31/97
100078	Doctors Memorial Hospital	FL	10/1/94	12/31/97
010126	Edge Regional Medical Center	AL	12/1/94	12/31/97
110189	Fannin Regional Hospital	GA	1/1/94	12/31/97
040080	Harris Hospital	AR	10/1/94	12/31/97
010009	Hartselle Medical Center	AL	10/1/94	12/31/97
450162	Highland Medical Center	TX	1/1/94	12/31/97
450192	Hill Regional Hospital	TX	10/1/94	12/31/97
450596	Hood General Hospital (Granbury)	TX	1/1/97	12/31/97
180139	Kentucky River Medical Center	KY	7/1/95	12/31/97
440067	Lakeway Regional Hospital	TN	1/1/94	12/31/97
010150	LV Stabler Memorial Hospital	AL	10/1/94	12/31/97
140184	Marion Memorial Hospital	IL	11/1/96	12/31/97
420054	Marlboro Park Hospital	GA	8/1/96	12/31/97
320014	Mimbres Memorial Hospital	NM	3/1/96	12/31/97
260074	Moberly Regional Medical Center	MO	1/1/94	12/31/97
100122	North Okaloosa Medical Center	FL	3/1/96	12/31/97

PROVIDER NUMBER	HOSPITAL NAME	STATE	START DATE	END DATE
450623	Northeast Medical Center	TX	8/1/96	12/31/97
010054	Parkway Medical Center	AL	10/1/94	12/31/97
180117	Parkway Regional Hospital	KY	1/1/94	12/31/97
040047	Randolph County Medical Center	AR	10/1/94	12/31/97
190131	River West Medical Center	TX	8/1/96	12/31/97
490002	Russell County Medical Center	VA	1/1/94	12/31/97
190047	Sabine Medical Center	LA	10/1/94	12/31/97
450653	Scenic Mountain Medical Center	TX	10/1/94	12/31/97
440052	Scott County Hospital	TN	1/1/94	12/31/97
420036	Springs Memorial Hospital	GA	11/1/94	12/31/97
180128	Three Rivers Medical Center	KY	1/1/94	12/31/97
440192	White County Community Hospital	TN	10/1/94	12/31/97
010143	Woodland Community Hospital	AL	10/1/94	12/31/97

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 3 to Registration Statement No. 333-31790 of Community Health Systems, Inc. and subsidiaries of our report dated February 25, 2000 (May , 2000 as to Notes 9, 10, 14 and a portion of Note 1), appearing in the Prospectus, which is a part of this Registration Statement, and of our report dated February 25, 2000 (May , 2000 as to Notes 9, 10, 14 and a portion of Note 1) relating to the consolidated financial statement schedule appearing elsewhere in this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

Nashville, Tennessee
May , 2000

The foregoing Consent is in the form which will be furnished by Deloitte & Touche LLP upon completion of the recapitalization and exchange described in Note 14 to the consolidated financial statements and assuming that from December 31, 1999 to the date of such completion no other material events have occurred that would affect the accompanying consolidated financial statements or required disclosures therein.

/s/ Deloitte & Touche LLP

Nashville, Tennessee
May 17, 2000